

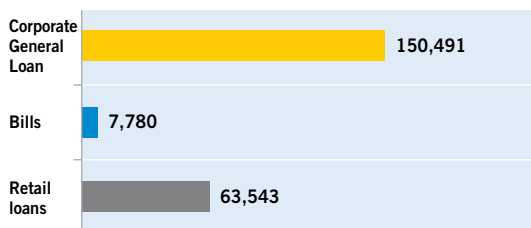
# Aiming for Higher Goals



Annual Report 2007

## Loan portfolio (at year end)

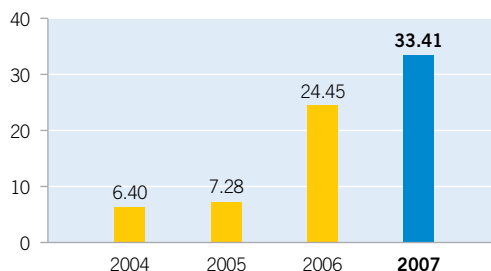
million Yuan



The Bank's retail loans as a percentage of total loans was 28.6%, at the end of 2007, among the highest for China banks.

## ROAE

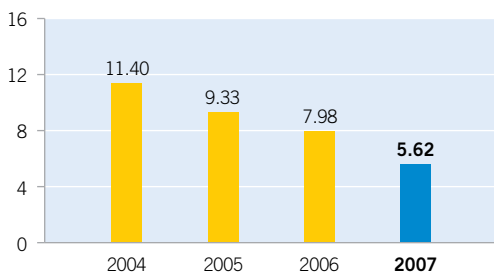
Percentage %



ROAE was 33.41% for the bank, among the highest for China banks.

## NPL ratio (at year end)

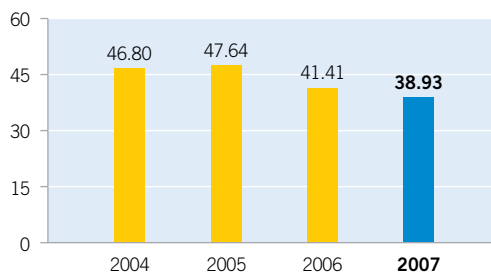
Percentage %



NPL ratio dropped steadily from 11.40% in 2004 to 5.62% in 2007.

## Cost income ratio

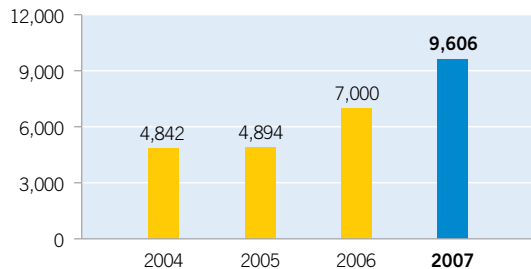
Percentage %



Cost income ratio is under control and dropped to 38.93% in 2007.

## Net interest income

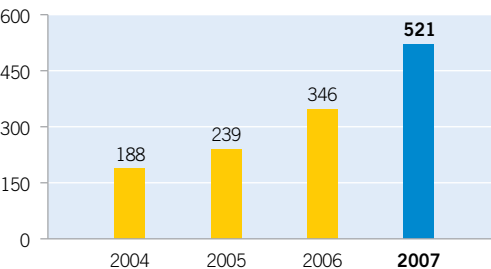
million Yuan



Net interest income rose 37% in 2007.

## Growth in net fee and commission income

million Yuan



Net fee and commission income rose 51% for the year.



# 1987

**23 Nov** By approval of the People's Bank of China ("PBOC"), Shenzhen Development Bank (SDB) is established and the Code of Practice approved.

**28 Dec** SDB opens for business.



# 2007

**Apr** CBRC approved Xiao Suining as President of SDB.

**8 Jun** The first EGM approved the "Proposal on Reform of Shareholder Structure" and "Proposal on Issuing the Warrants"

**12 Jun** Share Reform Plan approved by CBRC.

**16 Jun** "Supply Chain Finance" is awarded the "Prize of Excellence in Innovation" by the International Financial Capital Congress

**12 July** The Bank launches the new wealth management service "Tianji". A special deluxe flagship service centre is opened at Shenzhen Development Bank Tower.

**16 Sep** Supply Chain Finance is awarded the Best China Business Model in the Summit for the Best 2007 Business Model in China.

**Nov** sdb.com wins the National Excellence awards in the banking sector for "Best Financial and Securities Websites and "Most Innovative Banking Website".

**28 Dec** The Bank celebrates its 20th Anniversary.

## 1988

**29 Jan** 5 million RMB ordinary shares are issued after receiving approval from PBOC, Shenzhen Branch.

**7 Apr** RMB ordinary shares in Shenzhen Development Bank are listed on the Shenzhen Stock Exchange, making the Bank the first to be openly traded in the country.

## 1989

**7 Mar** RMB ordinary shares are issued for the third time and HKD priority shares publicly offered for the second time.

## 1990

**6 Mar** RMB ordinary shares are issued for the fourth time and existing ordinary shares with a face value of RMB20 Yuan are split into RMB 1 Yuan (face value) per share.

**28 Sep** SDB HQ moves from 1 Xinshifang, Caiwuwei, Shenzhen to Hubei Baofeng Building, No. 45, Baoan Road South, Shenzhen.

## 1991

**28 Oct** First branch outside Shenzhen, in Baoan, opens.

**20 Dec** First mortgage loan issued.

## 1992

**27 Oct** SDB participates in the third Shenzhen Financial Institution Skills Competition and comes in first overall, with three first places out of four major categories and five first places out of nine subjects.

**4 Nov** SDB is ranked second in Shenzhen and first among Shenzhen financial institutions at the 1st Major Tax Payer Award Conference.

## 1993

**28 May** The Bank wins "1st Place in 92 Annual Shenzhen Tax Payer" competition organized by the Shenzhen Enterprise Appraisal Association.

## 1994

**30 June** Deposits reach RMB10.18 billion Yuan, the first time the Bank surpasses the RMB10 billion mark.

**29 July** Guangzhou branch opens.

## 1995

**18 May** Topping-out ceremony for SDB building.

**22 Dec** Haikou branch opens.

## 1996

**1 Aug** SAFE approves SDB's request to conduct an off-shore piloting business.

**29 Aug** Zhuhai branch opens.

**28 Dec** Foshan branch opens.

## 1997

**22 Jan** SDB Building opens to become the Bank's new headquarters.



## 1998

**20 Apr** Shanghai branch opens.

**25 Oct** Hangzhou branch opens.

## 1999

**4 Feb** Ningbo branch opens.

**16 Apr** Wenzhou branch opens.

## 2000

**15 Mar** Beijing branch opens.

**12 July** Dalian branch opens.

**25 Sep** Chongqing branch opens.

**22 Nov** Nanjing branch opens.

## 2001

**1 Sep** Tianjin branch opens.

**28 Nov** Jinan branch opens.

## 2002

**28 May** Qingdao branch opens.

**28 Oct** Chengdu branch opens.

## 2003

**28 Oct** Kunming branch opens.

## 2004

**During the year** SDB launches "Juhuibao" and "Jucaibao", a series of FX and RMB wealth management products.

**19 Nov** sdb.com and 95501 are awarded "Excellent Financial Website" and "Best Call Center".

**Dec** SDB announces that Shenzhen Investment Management Company and three other shareholders sell SDB shares to Newbridge Asia AIVIII, L.P. and the share transfer has been registered with China Securities Depository and Clearing Corporation Limited Shenzhen Office.

## 2005

**Aug** SDB Customer Service Center was awarded "10 Best Country-Wide Call Center Service Quality".

**Sep** CBRC approves Mr Frank Newman as Chairman of the Board of Directors and Mr Kang Dian as Chairman of the Board of Supervisors.

**Dec** SDB Credit Card wins "Shenzhen Financial Innovation Award" from the Shenzhen Municipal Government and "2005 VISA Excellent Youth Credit Card Product Award" from VISA International.

## 2006

**Sep** SDB wins "10 Best Financial Growth Corporation" and "Best Corporate Image in China" award.

**Oct** SDB in cooperation with Wal-Mart China Investment Co, Ltd.GE Consumer Finance, launches the first dual-currency credit card - SDB Wal-Mart Changxiang Card.

**Nov** sdb.com wins 2nd place the National Excellence awards in the banking sector for "Best Financial and Securities Websites and "Most Innovative Banking Website".

**Dec** The Bank's Supply Chain Finance product is awarded second place in the Shenzhen Financial Innovation Awards.



The Bank celebrates its 20th anniversary in 2007

## Financial highlights

	2007	2006	Change in %
For the year ended 31 December			
<i>RMB million</i>			
.....			
Net interest income	<b>9,606</b>	7,000	37%
Net fee & commission income	<b>521</b>	346	51%
Profit before provision and tax	<b>5,776</b>	4,027	43%
Net profit	<b>2,650</b>	1,412	88%
Earnings per share (Yuan)	<b>1.27</b>	0.68	87%
At the year end			
<i>RMB million</i>			
.....			
Total shareholder equity	<b>13,006</b>	6,597	97%
Total assets	<b>352,539</b>	260,761	35%
Net assets per share (Yuan)	<b>5.67</b>	3.39	67%
Key ratios			Improvements
.....			
Non-performing loan ratio	<b>5.62%</b>	7.98%	-236bps
Return on average equity	<b>33.41%</b>	24.45%	+896bps
Capital adequacy ratio			
Core capital	<b>5.77%</b>	3.68%	+209bps
Total capital	<b>5.77%</b>	3.71%	+206bps

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	Shenzhen	Hainan & Guangdong Province (Excl. Shenzhen)	China (Excl. Guangdong, Shenzhen and Hainan)
<b>Number of banking outlets</b>	89	37	127
<b>Total Assets (million Yuan)</b>	63,989	51,736	208,139

Note: The above figures do not include that of Head Office



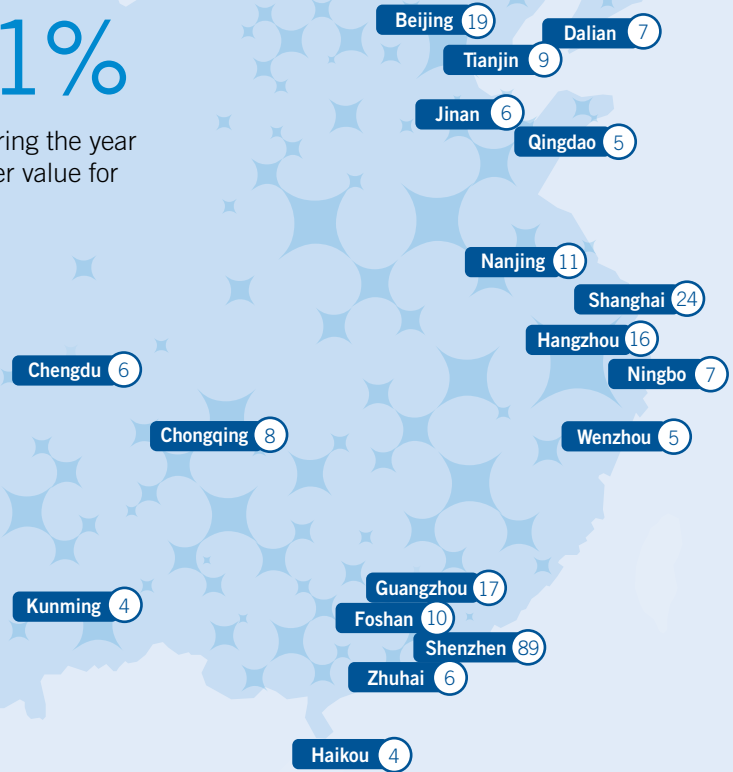
## Key Figures

# 88% growth in net profit

Outstanding performance was achieved as a result of steady business expansion, effective balance sheet management, business mix optimization, promotion of fee business income and a decline in the effective tax rate.

# ROE reached 33.41%

Shenzhen Development Bank's performance during the year reflected our commitment to creating shareholder value for our investors.



	Region				
	South	East	North East/ North	South West	Offshore
<b>2007 growth rate</b>					
- Corporate deposits	▲ 28%	▲ 15%	▲ 19%	▲ 42%	▲ 150%
- Retail deposits	▲ 15%	▲ 19%	▲ 26%	▲ 24%	
- Corporate loans	▲ 12%	▲ 21%	▲ 16%	▲ 36%	
- Retail loans	▲ 64%	▲ 51%	▲ 79%	▲ 94%	

## Message from the Chairman (CEO) and the President



*“On behalf of the Board of Directors, the senior management and all staff of Shenzhen Development Bank, we are pleased to report that the Bank achieved another year of great success.”*

Net profit for the year reached a historic high in the Bank's 20-year history of RMB2,650 million Yuan, an 88% increase over 2006; Return on Average Equity also achieved a record of 33.41%;

During the year the Bank's program of share reform was completed, which opened up more opportunities for us in the capital market. We built up our capital levels to a greater extent than at any time during the Bank's history, and for the first time since 2003 our Core Capital Adequacy Ratio reached more than the regulatory requirement. Our Capital Adequacy Ratio at the end of March 2008 stood at 8%.

Non-Performing loans declined, and the NPL ratio declined by a significant margin, with the NPL ratio at the end of 2007 falling to 5.6%, less than half the level of the end of 2004.

Our core businesses recorded strong growth, especially in our areas of focus such as trade finance, the mortgage business and wealth management. The innovations we made in both retail and commercial banking, which included a number of new products tailored to the needs of customers, received wide acclaim in the industry and among customers. Further detail on our progress in these areas is available in this report's business review section.

We continued to make progress in our communication with shareholders and investors during the year. This is particularly important for us at the Bank, and we have made a special effort to establish a comprehensive communication program with shareholders and the general public.

In the process of improving our performance, the Bank demonstrated adaptability, innovation and teamwork. As most of you are aware, the year was one in which the regulatory environment underwent significant change. In 2007 the Central Bank raised interest rates six times and the required reserve ratio ten times, and issued designated PBC notes to commercial banks on a number of occasions.

Thanks to the dedication and adaptability of our staff, the Bank was able to make a timely and accurate assessment of the changing situation and adapted accordingly to ensure continuing growth in line with the regulatory changes. This was accomplished with the support and advice of all regulatory authorities, various government agencies and guidance from our Board of Directors.

The seventh session of the Board was elected at the end of 2007, whose members bring to the Bank the benefit of their international expertise and local wisdom. We extend our most sincere thanks and regards to all members of the 6th session of the Board of Directors, who made invaluable contributions to this Bank during a very special period filled with challenge. We would like to acknowledge the very effective and practical guidance of Mr Jin Shiru, Mr Cai Zhenxiang, Mr Zheng Xueding, Mr Yuan Chengdi, Mr Qian Benyuan and Mr Hao Zhujiang, who have retired from the Board. We are confident that the new session of the Board of Directors will continue guiding and supporting the Bank so that we can become an even greater bank in the years to come.

During the past year, we celebrated the 20th anniversary of Shenzhen Development Bank with a series of activities in which staff, government officials, regulators, and our valued customers joined us in celebrating this milestone.

While celebrating the achievements we made in 2007, we have also been preparing for future challenges.

We plan to further improve our capital base in both core capital and total capital through a variety of means. The Bank's capital strength will grow even further in 2008, which will position us better for embracing new business opportunities in the years ahead.

With the uncertain macro economic situation in 2008, the Bank will continue to be adaptable in its response to the changing environment. We will put more focus on deposit taking and fee income, and will promote development in a range of attractive business areas, including trade finance, middle market, and retail deposits, lending, and wealth management.

We also intend to make some major investments in 2008, including a process reengineering project that will streamline and enhance customer service within a framework of sound internal controls. We will also invest in an outlet remodeling program, which will make our retail outlets more customer-friendly. Moreover, we will upgrade our IT system in support of our rapid business growth.

As the Bank is now in a much stronger position, we are also ready and pleased to invest more in programs of social responsibility so that we can contribute back to the communities in which we operate.

Again, on behalf of the management and the Board, we would like to express our appreciation to our customers for their confidence in us, our staff for their hard work and dedication, the regulators for their support and guidance, the government officials with whom we deal for their valuable advice and understanding, and our investors and the general public. We look forward to reporting to you next year on the progress we have made in 2008.

**Frank N. Newman**  
*Chairman (CEO)*

**Xiao Suining**  
*President*



**Xiao Suining**



## Milestones in 2007

### January

“Gold-for-interest” personal gold account services launched.

### April

The Bank and Sofang.com hold a joint press conference for the launch of the

“Self-service Trading Website”, targeted at the secondary property market.



### June

The Bank holds its first 2007 extraordinary general meeting cum share-reform related meeting. Resolutions on the “Proposal on Reform of Shareholder Structure of Shenzhen Development Bank Co., Ltd.” and the “Proposal on Issuance of the Warrant of Shenzhen Development Bank Co., Ltd.” are passed.

The proposal on the reform of the shareholder structure of the Bank is approved by CBRC.

### February

New Balloon Mortgage loan product introduced by the Bank.

### April

The China Banking Regulatory Commission (“CBRC”) approves the appointment of Mr Xiao Suining as President of the Bank.



The Bank’s Supply Chain Finance product is awarded by the International Financial Capital Congress for “Excellence in Innovation 2007 International Financial Products.”

## July



The Bank holds the Wealth Management Introduction Ceremony and Grand Opening of Flagship "Tianji" Wealth Management Center.

## November

The Bank's website is again awarded "Best Finance and Securities Website" and "Most Innovative Banking Website"

prize in the Eighth China Excellent Finance and Securities Website Selection Campaign.



The Bank's Annual Report 2006 wins Gold prize at the International Annual Report Competition in New York with entries from countries all over the world.

## September



The Bank's Supply Chain Finance service is awarded the "Best China Business Model" in the "Business Forum: the Summit for the Best 2007 Business Model in China."

## December



The Bank celebrates its 20th Anniversary!

## Review of Our Business

Following two years of restructuring and reform, Shenzhen Development Bank continued to make excellent progress in 2007. Net profit reached the highest level ever in the history of the Bank, and our shareholders reaped the rewards of our dynamic performance. Strong and steady growth was recorded in all our business lines, especially in our key areas of trade finance, mortgage lending and wealth management.

*The Chinese art of acrobatics is part of a 2,000-year-old tradition that began in the Han Dynasty. In those days, acrobats showed off their talents at carnivals and theatres as well for the royal family during special command performances. Today, this tradition lives on and Chinese acrobats are renowned the world over for their nimble and dynamic feats of skill, traits that are reflected in the performance of Shenzhen Development Bank.*



Shenzhen Development Bank is embarking on a program of expansion, with new branches to be opened across our nationwide network. This program will increase our ability to meet customer demands and help us achieve a growing share of the market.

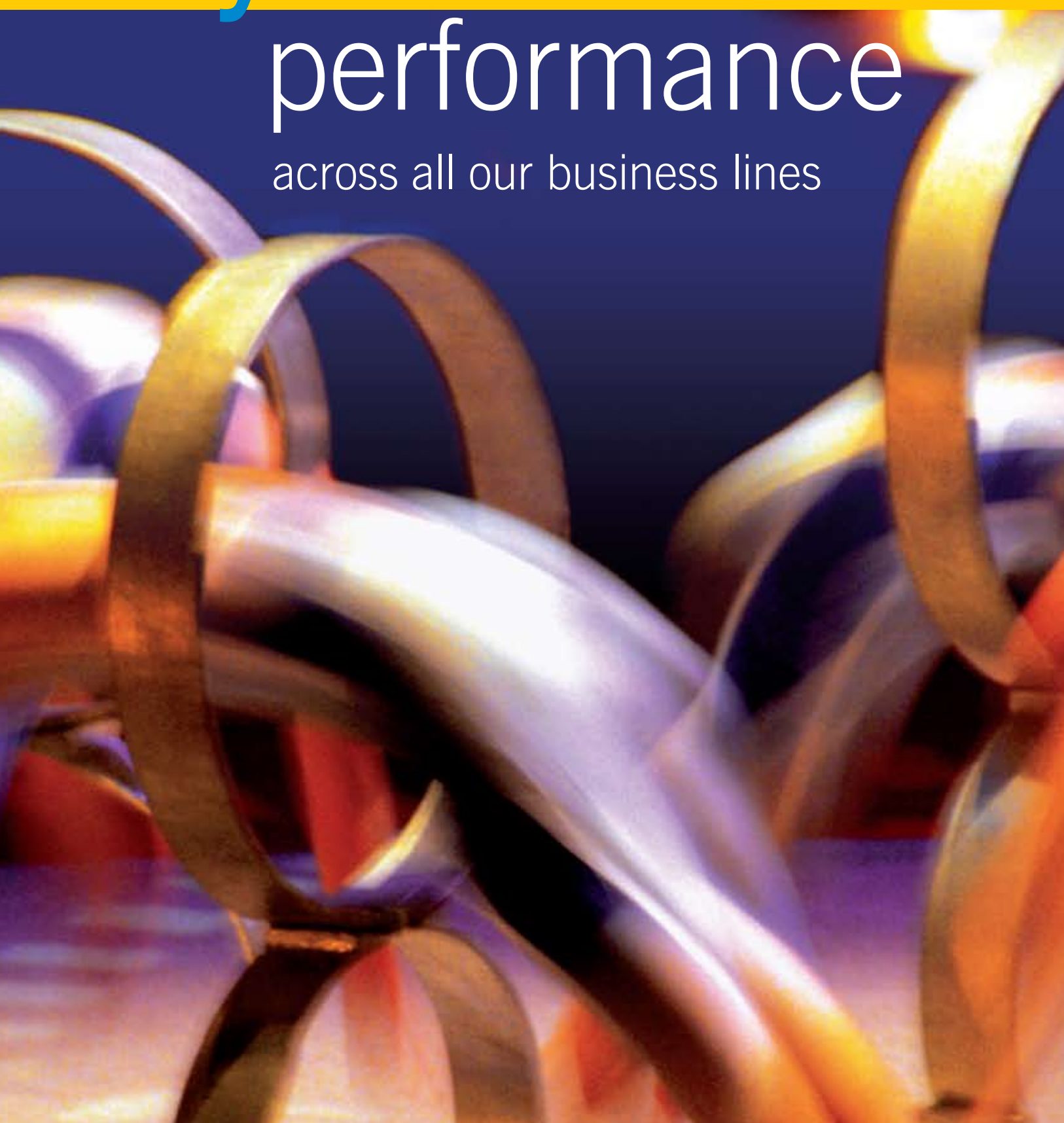




# Dynamic

# performance

across all our business lines



After successfully implementing our program of shareholding reform in 2007, we were able to build up our capital base to double that of the previous year — a first in our 20 years of operation. This breakthrough means that we are now permitted to open additional branches and expand into new cities.

*Further, faster, higher. In the Summer Olympics of 2004, a Chinese athlete won track gold in the country's sporting history. This was a monumental breakthrough and a proud moment for China. In this spirit of competitiveness, Shenzhen Development Bank will pursue new standards of excellence in the years ahead.*



Shenzhen Development Bank made world financial headlines when it finally achieved the minimum Capital Adequacy Ratio of 8% at end of March 2008 required by the regulatory authority to open new branches. This goal was reached after two years of intense planning and preparation by the Bank's management.



# Leap forward

widening our opportunities





# Creative

# vision

innovative products for our customers





During the year the Bank continued to meet the needs of customers in a rapidly-evolving market by launching a series of innovative new products, many of which were the first of their kind in China. Through the award-winning credit card, mortgage and wealth management products we introduced, more and more customers turned to us in 2007 as their bank of choice.

*Rhythmic gymnastics requires power, precision and flexibility – qualities that China's athletes possess in abundance. At Shenzhen Development Bank, we believe the same attributes enable us to provide visionary products that delight our customers and to drive our business forward.*



The Bank's award-winning Wal-Mart Changxiang Card was just one several popular new cards introduced during the year. More than 1.8 million credit cards were issued to Shenzhen Development Bank customers in 2007.

# Striving for excellence

poised for continued growth







Corporate banking has been a traditional strength of Shenzhen Development Bank and continued to show steady progress during the year. But to meet the needs of our retail customers, we placed even greater emphasis on our retail customers. In 2008, we will be making a substantial investment to improve our service and make our retail outlets more attractive and user-friendly for customers.



In 2007, the Bank launched a program of intensive training to give staff the skills they need to deliver the highest standard of customer service.

*A state of equilibrium is achieved when all actions are in harmony. For Shenzhen Development Bank, this means focusing on all of our businesses to create a perfect balance for steady, sustainable growth in the years ahead.*

## Corporate banking

# +52.2%

The trade finance business was a key performer during the year, registering strong growth while maintaining high asset quality. At the end of December, the number of trade finance clients increased by 52.2%. Trade finance increased by 4.66 percentage points as a proportion of our total corporate credit facilities from the beginning of the year, while non-performing credits continued to fall.



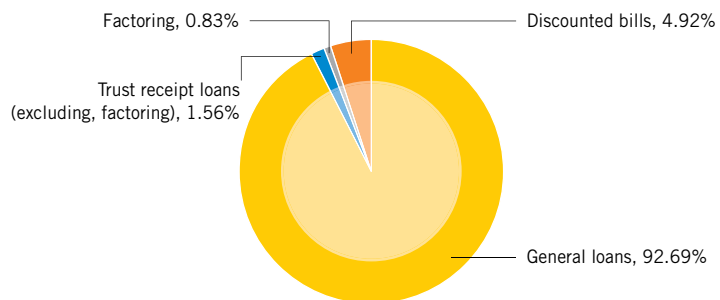
*"In 2007 our improved performance in Supply Chain Finance business provided the bank a stronger base for further business development and better profit growth."*

**Hu Yuefei**

Director and Vice President,  
Head of Corporate Banking Group

- Corporate loans (including discounted bills) comprised 71.35% of total loans in 2007.
- Corporate deposits made up 85.46% of total deposits in 2007.
- Corporate loans generated 77.02% of the Bank's loan interest income.

### Corporate Loans RMB '000



	31 December 2007	%
General loans	146,704,404	92.69
Trust receipt loans (excluding factoring)	2,476,060	1.56
Factoring	1,310,420	0.83
Discounted bills	7,780,001	4.92
<b>Total</b>	<b>158,270,885</b>	<b>100.00</b>



#### Corporate Golden Guard

This is a kind of safety account specially designed for corporate customers. Timely services such as the account balance change notice and the deduction insufficiency notice are provided to the corporate customers.



In 2007 corporate deposits rose by 22% and general loan balances by 19%. SDB's trade finance business accounted for a significant proportion of this performance.

The Bank's trade finance business is mainly focused on three major industries – steel and nonferrous metal, automotive, and energy and chemistry – with a client base largely made up of SMEs (84.9% of business volumes). This was in line with our transformation strategy towards SMEs and trade finance.

Geographically, this business has been based primarily in southern China. We also began promoting trade finance facilities more heavily in northern and eastern China, which led to an overall improvement of our trade finance across the Bank.

During the year the Bank invested significant resources in developing the supply chain business, and this led to the launch of a series of pool products, such as Export Account Receivables Pool, Export Invoice Pool Finance, and Export Tax Rebate Pool. Other innovative products and services introduced in 2007 included Import Forex Management and Corporate Golden Guard as well as an electronic platform for trade finance.

The Bank deepened cooperation with large strategic partners, such as Cosco, Sinotrans, Zhongchu, CRE and UPS, as well as industry price information providers such as Chinacm.com (the value of monitored goods amounted to over RMB100.000 million Yuan in the year). The Bank also successfully joined Factoring Chain International (FCI), thereby laying the foundation for the development of an international factoring business.

In 2007 the Bank undertook campaigns to increase corporate brand awareness. SDB's supply chain finance continued to gain a strong reputation in the market and garnered a number of awards by domestic and overseas media and academic institutes. These included the "2006 Commercial Beacon" award, "2007 Global Excellent Innovative Financial Product" award, "2007 Best Commercial Model in China" award, and the "Award for Outstanding Contribution to SME Financing."



#### First Automobile Works

"SDB's tailor-made products meet the needs of today's automobile business model such that credit facilities complement sales. Because of these products, we have been able to promote sales volumes and gain recognition from over 200 distributors, which has ultimately enhanced our market share. SDB brings us good innovations, excellent service standards and a mature operation, and has become a long-term partner in our future development."



#### Chinacm.com

"We first provided professional service in the financial industry together with SDB, and we've been able to provide this service to 10 more State-owned/ commercial banks. Our cooperation with SDB truly serves as a milestone in developing our business in the financial industry. This "win-win" partnering not only has widened our business scope but has also enhanced our brand-value in our industry. We believe a further consultant capacity can be achieved in the future through more in-depth cooperation."



## Retail banking

# RMB 15.03 billion Yuan

The Bank sold RMB15.03 billion Yuan of wealth management products nationwide in 2007, up by RMB13.09 billion Yuan, or 673%, from last year.



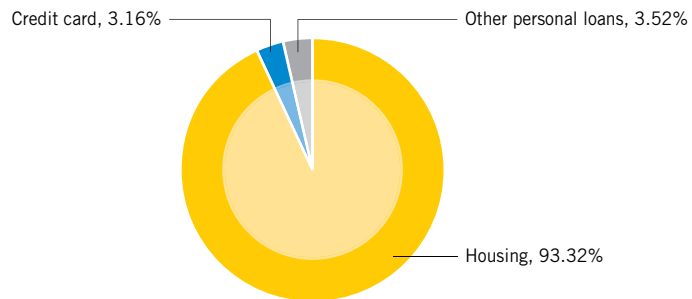
*“Our Retail Banking Business grew rapidly this year as a result of the innovative products and the adopted business model. Our product brands are now highly recognized in the market.”*

Liu Baorui

Director and Vice President,  
Head of Retail Banking Group

- The Bank's retail loan balance was RMB63.5 billion Yuan at the end of 2007, up by RMB24.63 billion Yuan, or 63.3%, from last year.
- The NPL ratio was 0.74%, down by 0.5% from last year end.
- The credit card business developed rapidly in 2007. Total cards issued in 2007 increased by 419% from 2006 and the number of cards at year end increased by 191%.
- The number of VIP customers reached 45.905 at the end of 2007, up by 17.019 or 58.92%.

### Corporate Loans RMB '000



	31 December 2007	%
Housing	59,297,346	93.32
Credit card	2,010,827	3.16
Other personal loans	2,234,540	3.52
<b>Total</b>	<b>63,542,713</b>	<b>100.00</b>

In 2007 retail deposit balances (including wealth management deposits) rose by 21%, a growth rate that placed SDB fifth among 14 national commercial banks. Retail loan balances rose by 63%, a growth rate that put SDB in the number two ranking among 14 national commercial banks. The proportion of retail loan balances to gross loan balances of the Bank rose by 7.3 percentage points over the beginning of the year. With its expanding share of the market, the retail business contributed a relatively higher capital return to the Bank than in previous years.

Contributing to the growth of the retail business was the introduction of a wide spectrum of innovative wealth management products. In line with global trends, the Bank launched new financial derivative trading-related products,



share subscription products and fund investment products for a total of 197 wealth management products introduced or developed by the Bank during the year. "Gold for Interest", "Fund for Interest" and the pioneering "Ju Cai Card", which offers a mix of wealth management services, were particularly well received by customers.

Sales revenue from wealth management products amounted to RMB15.030 million Yuan, an increase of RMB13.085 million Yuan, or 673%, compared with 2006. Up to the end of 2007 the Bank underwrote some 60% of the fund types in the market, and fund transaction volumes showed strong growth over the prior year. As a result fee income rose by 420%, and sales volume rose by 360%.

Mortgage products also contributed to Bank's growing retail business revenues in 2007. Following the introduction of five mortgage products the year before (Bi-weekly Mortgage Payments, Non-trading Transfer Mortgage, Revolving Loans, Offset Loans, and Transactional Fund Monitor), the Bank developed and launched four innovative mortgage products or channels in 2007. These included Balloon Loans, Wholesale Mortgage, Self-transaction.com and the Mortgage Credit Card, all of which gained wide recognition in the real estate market and achieved satisfactory results.

In 2007 the Bank achieved success by taking a market segmentation approach to its credit card business. Five new credit card products were launched, including the Au-chan Card, Hong Kong Traveling Card, Shenzhen Central Walk Card, Mortgage Credit Card and SDB-Dangdang Co-branded Card.

The installment business experienced rapid development and continuous geographical expansion during the year, recording sales volume growth of 185% over 2006. Sales channels for credit cards were expanded from the 18 cities in China where branches are located to 35 cities, creating a remarkable improvement in the sales capability of this business. Up to 31 December, 2007, the Bank had issued 1.88 million credit cards in force, an increase of 191% compared with the same period last year. This figure includes 1.37 million credit cards issued for the first time in 2007, an increase of 419% compared with the same period last year.

In accordance with the Bank's customer-first strategy, in 2007 a new wealth management brand, "Tian Ji Wealth Management", was born and the brand's first flagship store opened in Shenzhen. At present, mid-sized Tian Ji Wealth Management Centers are being established in major cities, such as Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, and Nanjing.



#### "Balloon Loan"

"I needed a medium or short-term mortgage since the house I bought was only for transitional purposes, however I didn't want the monthly payment to be too high. A Balloon Loan from SDB satisfied my desire to acquire a "short-term loan with low monthly payment." SDB also introduced me to their mortgage credit card, and the points I gain for using my credit card can be used to deduct my monthly payment. No wonder SDB is known as an expert in mortgage financing."



#### "Tianji Wealth Management"

"With Tianji Wealth Management, SDB provides a consultant for you not because they want to sell their own products but to work on your behalf. I believe SDB has what it takes to do long-term business. I appreciate that attitude."

*Endorsements from some of our customers*

## Innovative products and awards



### Credit Card

- PIN protected credit cards
- ★ 2005 Financial Innovation Award  
Shenzhen Municipal Government
- Shanghai Youth Card
- ★ 2005-2006 China Excellent Marketing Award,  
Grade 3 of Servicing Industry  
HKMA and The Economic Observer magazine
- Wal-Mart Changxiang Card
- ★ 2006 Popular joint VISA Card  
2006-2007 China Excellent Marketing Award  
The HKMA and The Economic Observer magazine
- Hong Kong Travel Card
- ★ Excellent Promotion Award  
China UnionPay
- Central Walk More Card
- ★ 2007 China UnionPay Standard Credit Card  
Excellent Project  
PBOC, Shenzhen Branch

★ Award Winning Products

- Mortgage credit card
- ★ 2007 China Banking Excellent Innovation Award  
2007 Finance and Economics Top list by Hexun.com

### Bank card

- Jucai Card

### General Banking

- Golden Guard – notification message service
- B2B Trade funding supervision
- Self service trading platform
- Corporate Golden Guard

### Trade Finance

- ★ The Second Financial Innovation Award  
Shenzhen Municipal Government;
- ★ Best SME Financing Solution  
CBA, CASME and Financial News;

- ★ Excellence in International Financial  
Product Innovation  
SIRFP and CFP;

- ★ 2006 Commercial Benchmark  
The Economic Observer and UIBE Business School

- ★ Best SME Servicing Bank  
CFO magazine.

- ★ 10 Best Country-Wide SME Supporting  
Commercial Bank  
Second SME Annual Conference

- ★ 2007 Best Business Model  
Business Review, CKGSB and ALLPKU

- ★ Outstanding Contribution to SME Financing  
21st Century Asia Financial Annual Conference,  
2007 Asian Bank Competitiveness Ranking

- SDB Pledge Financing
- Domestic Factoring
- Supply Chain Finance





- Export ARP (Account Receivable Pool) Financing
- Commercial Paper Based Short-term Financing Solution (CPS)
- Future Cargo Title Pledge L/C
- Domestic ARP Financing
- Export Tax Redeemable Pool Financing
- E-Banking International Settlement

**Wealth management products**

- Jucaibao Cash Dividends Enhancement Plan
- ★ *Shenzhen Excellent Financial Innovation Award*  
Shenzhen Municipal Government Second place in Wealth Management New Products, Caijing Magazine
- Gold for Interest wealth management accounts

- Fund For Interest wealth management account
- “JuCaiBao” RMB wealth management products
- ★ *Award for the Most Potential Wealth Management Product of New Share IPO Type*  
Nanfang Daily Group
- ★ *2007 China Top 10 Banking Wealth Management Product*  
Nanfang Daily Group
- “JuHuiBao” Foreign currency management products Surpassing Plan 2007
- “Jujinbao” Personal Barter Business Service Gold Trading Service
- ★ *The 4th Award for the Most Influential Wealth Management Product in China*  
People's Daily

**Mortgage loans**

- Bi-weekly mortgage payments
- ★ *2006 China Banking Industry Golden Award*
- ★ *Grade 2 of China Excellent Marketing Award*
- ★ *2006 China Effie Award*
- Balloon Loans
- Revolving Loans
- Offset Loans

**Offshore banking**

- Offshore E-Banking



## Special assets group

# RMB 2,003 million Yuan

The Bank collected RMB2,003 million Yuan in 2007, of which more than 92% was collected in cash.



*“Because of improvements in the Special Assets Group’s internal controls, the Bank was able to collect more non-performing assets and bad debts during the year.”*

**Wang Ji**  
Special Advisor,  
Head of Special Assets



Asset quality continued its improvement trend in 2007, and in 2007 the Bank achieved a dual-decline in the NPL balance and NPL ratio following measure to improve its internal management and collection processes. This was achieved by a combination of the Bank’s own initiatives and market measures.

The Bank reported RMB12,476 million Yuan in NPLs at 31 December, 2007, almost all of which were legacy loans made before 1 January, 2005. New loans made after 1 January, 2005 were almost all of good quality, with an NPL ratio of less than 1%. The NPL ratio showed a continuous decline over the year, with 5.62% at the end of reporting period, compared with 8.3% at 30 June, 2006, 7.98% at 31 December, 2006 and 7% at 30 June, 2007.

## Financial institutions group

SDB's Financial Institutions business continued to expand in 2007, with annual ADB deposits growing 149% compared with last year. A security house settlement custodian business was launched during the year, and a third party custodian partnership established with 16 respected security houses.

The Bank also signed ISDA, CSA with 21 offshore banks and established business partnership with 16 other financial institutions, which will further enhance dealing channels for financial wealth management products and provide adequate support for SDB's basic banking business.

Our three core values are Integrity, Professionalism and customer service efficiency. With these values we are able to establish excellent long term relationship with our clients.

In 2007 the traditional inter-bank business made steady progress across the Bank, thanks to enhanced product innovation, improved profitability, and the diversification of profit sources. The Bank further promoted the profitability of the inter-bank business mix.

In the reporting period, the treasury department cooperated with the retail department to produce a variety of wealth management products linked to stocks, stock indexes, funds, agriculture products and carbon dioxide offsets, with outstanding increases in the product number, volumes and profits over 2006.

Transaction volumes and client numbers in the gold business ranked number one among local banks in Shenzhen, with the number of personal gold barter business clients reaching 12,000 making the Bank the second largest in this business in China. A press conference on the Bank's gold business was broadcast by CCTV News in prime time.

# +149%

The inter-banking business continued to grow in 2007 and average interbank deposit balances increased by 149% from last year.



*"Our core values are Integrity, professionalism and customer service. These values have enabled us to establish excellent long term relationships with our clients."*

**Hao Jianping**

*Vice President,  
Head of Financial Institutions*

## Board of Directors and Supervisors



**Frank N. Newman**  
Chairman (CEO)

**Xiao Suining**  
Director and President

**Daniel A. Carroll**  
Director

**Hu Yuefei**  
Director and Vice President

### Directors

#### Frank N. Newman

*Chairman and CEO*

1963-1969

Consultancy Manager  
of KPMG

1969-1973

Vice President of Citigroup

1973-1986

Vice President, Senior Vice  
President, Executive Vice  
President, and Chief Financial  
Officer of Wells Fargo

1986-1993

Vice President, Chief Financial  
Officer and Vice Chairman of BOD  
of Bank of America

1993-1995

Chief Secretary for US Finance,  
and Deputy Treasury Secretary  
of US Department of Treasury

1995-1999

Senior Vice President,  
President, Chairman and CEO  
of Bankers Trust

2000-2005

Director of Korea First Bank

2004

CEO and Vice Chairman  
(Non-Executive) of the  
Broad Center for Management

of School Systems

2004.12-2005.6

Independent Director of SDB

2005.5-2005.6

Acting Chairman and CEO of SDB

2005.6-Present

Chairman and CEO of SDB

#### Xiao Suining

*Director and President*

1990-1995

Director of HR & Education  
Department, Assistant General  
Manager and Vice President of  
Bank of Communications  
Chongqing Branch

1995-1999

President, Secretary of CPC  
Group and Secretary of CPC  
Committee of Bank of  
Communications Zhuhai Branch

1999-2007.2

President, CPC Committee  
Secretary of Bank of  
Communications  
Shenzhen Branch

2007.2-Present

President of SDB

2007.6-Present

Director of SDB

#### Daniel A. Carroll

*Director*

1995-Present

Partner of TPG Capital, Limited

2000-2005

Director of Korea First Bank

2007-Present

Director of BankThai  
Public Company Limited

2004.12-Present

Director of SDB

#### Hu Yuefei

*Director and Vice President*

1990-2006.3

President of SDB Nantou  
Sub-Branch, President of SDB  
Guangzhou Branch and Assistant  
President of SDB

2006.3-Present

Vice President of SDB

2007.12-Present

Director of SDB

#### Li Jinghe

*Director*

1987-2000

Deputy General Manager  
and General Manager of China



**Li Jinghe**  
Director

*2003-Present*  
Chairman of Board of China National Electronics Import and Export Zhuhai Company

*2000-Present*  
Director, General Manager and CPC Committee Secretary of China National Electronics Import and Export Shenzhen Company

*2007.12-Present*  
Director of SDB

**Liu Baorui**  
*Director and Vice President*

*1998.8-2003.3*  
Assistant President and CPC Committee Member of SDB

*2000.3-Present*  
Vice President and CPC Committee Deputy Secretary of SDB

*2007.12-Present*  
Director of SDB

**Ricky Lau**  
*Director*

*1993-1998*  
Investment Manager of Hopewell Holdings Limited

**Liu Baorui**  
*Director and Vice President*

*1998-Present*  
Managing Director of TPG Capital, Limited

*2007.12-Present*  
Director of SDB

**Mary Ma**  
*Director*

*1978-1990*  
Division Chief of Bureau of International Cooperation of China Academy of Science

*1990-2007*  
Senior Vice President and Chief Financial Officer of Lenovo Group Limited

*2007.9-Present*  
Partner and Managing Director of TPG Capital, Limited

*2007.12-Present*  
Director of SDB

**Shan Weijian**  
*Director*

*1998-Present*  
Partner of TPG Capital, Limited

*2000-2005*  
Director of Korea First Bank

*2005.6-Present*  
Director of SDB

**Mary Ma**  
*Director*

**Wang Kaiguo**  
*Director*

*2001.6-Present*  
Chairman and CPC Committee Secretary of Haitong Securities Co., Ltd.

*2006.6-Present*  
Director of SDB

**Chen Wuzhao**  
*Independent director*

*1995-1998*  
Project Manager of Zhonghua Accounting Firm

*1998-2000*  
Instructor of Accounting of School of Economics and Management of Tsinghua University

*2000-Present*  
Associate Professor of Accounting Research Institute of Tsinghua University

*2007.12-Present*  
Independent Director of SDB

**Shan Weijian**  
*Director*





**Wang Kaiguo**  
Director

**Chen Wuzhao**  
Independent director

**Michael O'Hanlon**  
Independent director

**Robert T. Barnum**  
Independent director

**Andy Xie**  
Independent director

### Michael O'Hanlon

*Independent Director*

1980-2005  
Managing Director  
of Lehman Brothers Inc.

2000-2002  
Director of Aozora Bank Ltd.

2000-2005  
Director of Korea First Bank

2006-Present  
Senior Managing Director  
of Marathon Asset Management,  
LLC

2007  
Director of Bank Thai Public  
Company Limited

2004.12-Present  
Independent Director of SDB

### Robert T. Barnum

*Independent director*

1969-1970  
Analyst of US Savings  
and Loan Association

1970-1973  
Vice President of Finance  
of FHLB Seattle

1973-1980  
Vice President of Finance  
of PMI Mortgage

1980-1982  
Vice President of FNMA

1982-1984

Executive Vice President  
and Chief Financial Officer  
of Krupp Company

1984-1989

Executive Vice President  
and Chief Financial Officer  
of First Nationwide Bank

1989-1997

CFO, COO and President  
of American Savings Bank

2007.6-Present

Independent Director of SDB

### Andy Xie

*Independent director*

1990-1995

Economic Analyst of World Bank

1995-1997

Associate Director of Macquarie  
Bank

1997-2006

Managing Director  
of Morgan Stanley

2007-Present

Director of Rosetta Stone  
Advisors Ltd

2007.12-Present

Independent Director of SDB

## Supervisors

### Kang Dian

*Chairman of Board of Supervisors*

1984-1987

Deputy Division Head  
and Division Head of CITIC

1987-1990

Deputy General Manager of  
China Agricultural Investment  
Trust Co., Ltd.

1990-1994

General Manager of China  
Packaging Corporation

1994-2000

Deputy Managing Director of  
Guangdong Enterprises Co., Ltd.

2001-2005

Chairman and CEO of Shirui  
Investment Management Co., Ltd.

2005.6-Present

Chairman of Board of Supervisors  
of SDB

### Guan Weili

*External Supervisor*

1996.3-2004

President of China Enterprises  
Consulting Co., Ltd.

1997.6-2004

Honorary Chairman of Board  
of China Enterprises Rating  
Co., Ltd.



**Kang Dian**  
Chairman of BOS

**Guan Weili**  
External supervisor

**Xiao Geng**  
Supervisor

**Zhou Jianguo**  
Supervisor

**Jiao Jisheng**  
Employee supervisor

**Ma Limin**  
Employee supervisor

**Ye Shuhong**  
Employee supervisor

*2004-Present*  
Chairman of Board of Panwin Investment Consultant Co., Ltd.

*2005.1-Present*  
External Supervisor of SDB

**Xiao Geng**  
*Supervisor*

*1991-1992*  
Consultant of World Bank

*1992-2007*  
Instructor and Associate Professor of the University of Hong Kong

*2000-2003*  
Advisor and Head of Research, Securities and Futures Commission Hong Kong

*2007-Present*  
Director of the Brookings-Tsinghua Center for Public Policy

*2007-Present*  
Senior Fellow of the Brookings Institution

*2007.12-Present*  
Supervisor of SDB

**Zhou Jianguo**  
*Supervisor*

*1983-1996*  
Associate Professor of Accounting Department, Deputy Dean and Head of Adult Education Department of Jiangxi University of Finance and Economics

*1996-1997*  
Deputy General Manager of Shenzhen Zhong Lv Xin Industrial Co., Ltd.

*1997-2004*  
Assistant President, General Manager of Audit Department, Head of Financial Planning of Shenzhen Business and Trade Investment Holding Company

*1999-2003*  
Chairman and CPC Secretary of Shenzhen Business-Holding Industrial Co., Ltd

*2004-Present*  
Chairman and CPC Committee Secretary of Shenzhen Commercial and Industrial Holding Co., Ltd.

*2007.12-Present*  
Supervisor of SDB

**Jiao Jisheng**  
*Employee Supervisor*

*1983-1992*  
Deputy Section Head and Vice President of Agriculture Bank of China Hejiang Central Region Sub-Branch and Jiamusi Sub-Branch

*1993-2007*  
Vice President of SDB Shatoujiao Sub-Branch and Changcheng Sub-Branch, General Manager of SDB Head Office Accounting Department, Executive Vice President of SDB Beijing Branch,

General Manager of SDB Head Office Internal Controls Department, Vice President of SDB Dalian Branch, Financial Officer of SDB Shenzhen Branch, General Manager of SDB Head Office Accounting Department

*2007-Present*  
Vice President of SDB Dalian Branch

*2007.12-Present*  
Employee Supervisor of SDB

**Ma Limin**  
*Employee supervisor*

*1993-2005*  
Deputy General Manager and General Manager of International Settlement Department, SDB

*2005-Present*  
General Manager of Trade Finance Department, SDB

*2007.12-Present*  
Employee Supervisor of SDB

**Ye Shuhong**  
*Employee supervisor*

*2006-Present*  
Assistant General Manager of Head Office Internal Controls Department, SDB

*2007.12-Present*  
Employee Supervisor of SDB

## Our Officers

### Frank N. Newman

*Chairman (CEO)*

### Xiao Suining

*Director and President*

### Hao Jianping

*Vice President,  
Head of Financial Institutions*

*1993-2001*

Executive Deputy Branch Manager of Macau Branch of Guangdong Development Bank

*2001-2002*

Zuhai Branch Manager of Guangdong Development Bank

*2002-2003*

Senior Management at Vice President level

*2003-Present*

Vice President of SDB

### Wang Bomin

*Chief Financial Officer*

*1995-2002*

Citibank Taiwan, Vice President, Treasury Group financial engineering and market risk supervision

*2002-2003*

Head of Treasury Group of Taishin Financial Holding Co., Ltd. (Senior Vice President, Deputy CFO)

*2003-2005*

Head of Risk Control Group, Senior Vice President, Taishin Financial Holding Co., Ltd.

*2005-Present*

Chief Financial Officer of SDB

### Xu Jin

*Board secretary, GM of Legal Affairs Department*

*1999-2003*

Vice General Manager of Asset Security Department of SDB Head Office

*2001-2003*

Director of Shenzhen Special Asset Management Center of SDB

*2003-Present*

General Manager of Legal Affairs Department of SDB Head Office

*January to May 2005*

Employee Supervisor of 5th BOS of SDB

*2005-Present*

Board Secretary of SDB

### Simon Lee

*Chief Credit Officer*

### Zhang Yuanliang

*Chief Information Officer*

### Zhao Na

*Chief Human Resources Officer*

### Wang Ji

*Special Advisor, Head of Special Assets*

### Liu Baorui

*Vice President,  
Head of Retail Banking*

### Hu Yuefei

*Vice President,  
Head of Corporate Banking*

### Zhou Li

*Assistant President,  
Head of Shenzhen Branch*

### Huang Shouyan

*Assistant President,  
Head of the Head Office Branch*

### Chen Rong

*Chief Internal Control Officer*

### He Zhijiang

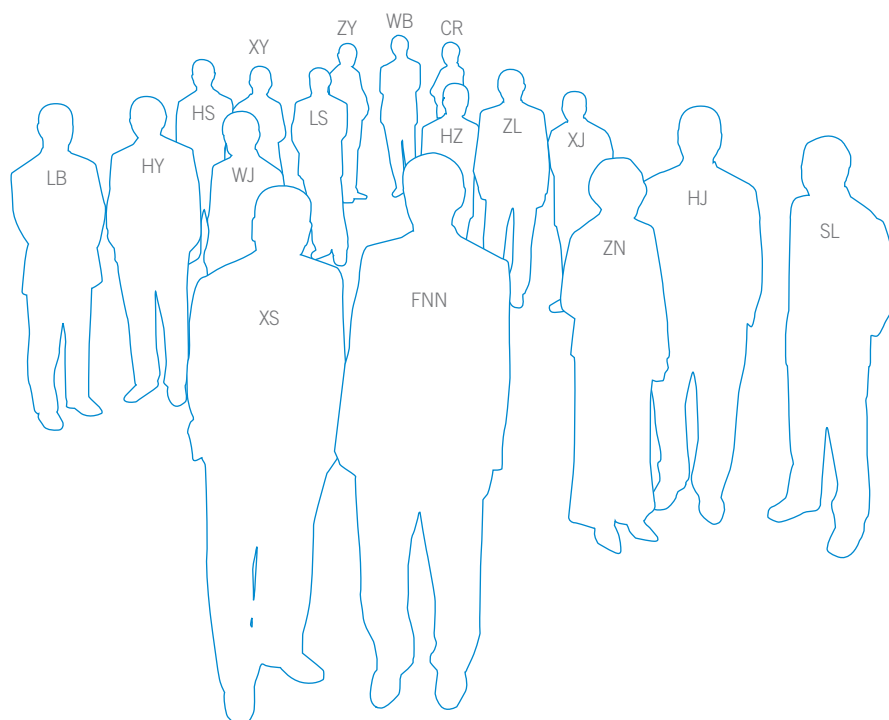
*Head of Treasury*

### Xiang Youzhi

*Head of Financial Planning*

### Liu Shun

*Head of Administration*







## Information on Directors, Supervisors, Senior Management and Staff

### A Brief Introduction

NAME	Position	Gender	Year of birth	Office tenure	Shares held at 1 January 2007	Shares held at 31 December 2007	Changes in shares held
Frank N. Newman	Chairman of BOD (CEO)	M	1942	Director: 2007.12–Expiration CEO: 2005.5–	-	-	-
Chen Wuzhao	Independent director	M	1970	2007.12–Expiration	-	-	-
Daniel A. Carroll	Director	M	1960	2007.12–Expiration	-	-	-
Hu Yuefei	Director, Vice president	M	1962	Director: 2007.12–Expiration Vice President: 2006.5–	903	1,092	189 shares added from share reform and warrant exercise
Li Jinghe	Director	M	1955	2007.12–Expiration	-	-	-
Liu Baorui	Director, Vice president	M	1957	Director: 2007.12–Expiration Vice President: 2000.3–	-	-	-
Ricky Lau	Director	M	1970	2007.12–Expiration	-	-	-
Mary Ma	Director	F	1952	2007.12–Expiration	-	-	-
Michael O'Hanlon	Independent director	M	1955	2007.12–Expiration	-	-	-
Robert T. Barnum	Independent director	M	1945	2007.12–Expiration	-	-	-
Shan Weijian	Director	M	1953	2007.12–Expiration	-	-	-
Wang Kaiguo	Director	M	1958	2007.12–Expiration	-	-	-
Xiao Suining	Director, President	M	1948	Director: 2007.12–Expiration President: 2007.2–	-	-	-
Andy Xie	Independent director	M	1960	2007.12–Expiration	-	-	-
Kang Dian	Chairman of BOS (External supervisor)	M	1948	2007.12–Expiration	-	-	-
Guan Weili	Supervisor	M	1943	2007.12–Expiration	-	-	-
Jiao Jisheng	Employee supervisor	M	1955	2007.12–Expiration	-	-	-
Ma Limin	Employee supervisor	M	1964	2007.12–Expiration	-	-	-
Xiao Geng	External supervisor	M	1963	2007.12–Expiration	-	-	-
Ye Shuhong	Employee supervisor	F	1962	2007.12–Expiration	-	-	-
Zhou Jianguo	Supervisor	M	1955	2007.12–Expiration	-	7,000	Purchase from the secondary market
Hao Jianping	Vice president	M	1953	2003.9–	50,000	60,500	10,500 shares added from share reform and warrant exercise
Wang Bomin	Chief financial officer	M	1963	2005.5–	-	-	-
Xu Jin	Board secretary	M	1966	2005.5–	-	-	-

Note: In 2007 the appointment of Ms Mary Ma, Mr Ricky Lau, Mr Li Jinghe, Mr Liu Baorui, Mr Hu Yuefei, Mr Chen Wuzhao, and Mr Andy Xie has been filed with the CBRC for examination and approval. The appointment of Mr Chen Wuzhao has been approved by the CBRC on 21 January 2008; the appointment of Mr Liu Baorui and Mr Hu Yuefei have been approved by the CBRC on 24 January 2008.

### B Positions held by Directors and Supervisors in Shareholder's Company

NAME	Name of Company	Position	Tenure
Daniel A. Carroll	Newbridge Asia AIV III, L.P.	Managing Partner	2000–Now
Li Jinghe	China National Electronics Import & Export Shenzhen Company	Director, General Manager CPC committee secretary	2000–Now 2006–Now
Ricky Lau	Newbridge Asia AIV III, L.P.	Managing Director	2000–Now
Mary Ma	Newbridge Asia AIV III, L.P.	Partner	September 2007–Now
Shan Weijian	Newbridge Asia AIV III, L.P.	Managing Partner	2000–Now
Wang Kaiguo	Haitong Securities Co., Ltd.	Chairman of BOD, CPC committee secretary	2001–Now

Note: Mr Li Jinghe started to serve as vice chairman, general manager and CPC committee secretary of China National Electronics Import & Export Shenzhen Company since January 2008.

### C Positions Held Concurrently by Directors, Supervisors and Senior Management in other Companies

NAME	Name of Company	Position
Chen Wuzhao	Accounting Research Institute of Tsinghua University	Associate Professor
	Guodu Securities Liability Limited	Independent director
	leslab Electronics Co., Ltd.	Independent director
Daniel A. Carroll	TPG Capital, Limited	Partner
	Lenovo Group Limited	Alternate director
	BankThai Public Co., Ltd.	Director
Li Jinghe	China Electronics Import & Export Zhuhai Co., Ltd.	Chairman
	China Electronics Import & Export Zhuhai Technological Industry Co., Ltd.	Chairman
	Shenzhen Jinghua Electronics Co., Ltd.	Chairman
	Shenzhen Huaqiang Industrial Co., Ltd.	Independent director
Liu Baorui	China Unionpay Co., Ltd.	Supervisor
Ricky Lau	TPG Capital, Limited	Managing director
	Guanghui Automobile Services Co., Ltd.	Director
Mary Ma	TPG Capital, Limited	Partner, Managing director
	Lenovo Group Limited	Non-executive vice chairman
Michael O'Hanlon	Marathon Asset Management, LLC	Senior Managing Director
	Marix Servicing, LLC	Chairman of the Board
	Doral Financial Corporation	Director
Robert T. Barnum	Ameritrust Mortgage	Director, Chairman of Audit Committee
	Waterfield Bank	Director, Risk Management Committee
	Real Estate Affiliated Logistics	Director
Shan Weijian	Bank of China (Hong Kong) Limited	Independent director
	Bank of China Hong Kong (Holdings) Co., Ltd.	Independent director
	China United Communications Co., Ltd.	Independent director
	Edenvale Holdings Limited	Director
	TPG Capital, Limited	Partner
	TCC International Holdings Limited	Non-executive director
	Lenovo Group Limited	Non-executive director
	Taiwan Cement Company	Independent director
Taishin Financial Holding Co., Ltd.	Director	
Wang Kaiguo	Shanghai Shimao Co., Ltd.	Director
Andy Xie	Rosetta Stone Advisors Ltd.	Director
Kang Dian	Shirui Investment Management Co., Ltd.	Director
	Silver Grant International Industries Limited	Independent non-executive director
	Galaxy Futures Co., Ltd.	Independent director
Guan Weili	BYD Co., Ltd.	Independent non-executive director
	Beijing Panwin Investment Consultant Co., Ltd.	Chairman of BOD
	Dong Feng Automobile Co., Ltd.	Independent director
	North China Pharmaceutical Co., Ltd.	Independent director
	Jilin Power Co., Ltd.	Independent director
	Shanghai Worldbest Pharmaceutical Co., Ltd.	Independent director
	China Textile Machinery Group Co., Ltd.	Director
	Tianjin Eteda Technology Co., Ltd.	Director
China Cinda Asset Management Corporation	Member of Advisory Committee	
Xiao Geng	Brookings-Tsinghua Center for Public Policy	Director
	Brookings Institution	Senior Fellow
Zhou Jianguo	Shenzhen Investment Holding Corporation	Deputy General Manager
	Guotai Junan Securities Co., Ltd.	Director
	Nanfang Fund Management Co., Ltd.	Director
	Shenzhen Capital Group Co., Ltd.	Director
	China Nanshan Development (Group) Co., Ltd.	Supervisor
Xu Jin	China International Economic and Trade Arbitration Committee	Arbitrator
	Shenzhen Arbitration Committee	Arbitrator



## D Annual compensations

Annual compensation of directors, supervisors and senior executives of the Bank is decided in the following procedures and based on the following resolutions: the compensation program for directors of the 6th board of directors and supervisors of the 5th board of supervisors was reviewed and approved by the 2004 SDB Annual General Meeting, and was reviewed and revised by the 2006 SDB Annual General Meeting; the compensation program for senior executives of the Bank was reviewed and approved by the 26th and 27th meeting of the 6th board of directors.

The following table shows the compensations (before-tax) paid in 2007 to directors, supervisors and senior executives of the Bank:

NAME	Position	Total amount paid to each person (in RMB 10,000 yuan)
Frank N. Newman	Chairman of BOD (CEO)	2,285
Daniel A. Carroll	Director	55
Hu Yuefei	Director, Vice president	352
Liu Baorui	Director, Vice president	351
Michael O'Hanlon	Independent director	98
Robert T. Barnum	Independent director	31
Shan Weijian	Director	50
Wang Kaiguo	Director	51
Xiao Suining	Director, President	421
Kang Dian	Chairman of BOS (External supervisor)	151
Guan Weili	External Supervisor	95
Hao Jianping	Vice president	230
Wang Bomin	Vice president	328
Xu Jin	Board secretary, General Manager of Legal Affairs Dept.	169
<b>Total</b>		<b>4,667</b>

Note: Mr Chen Wuzhao, Mr Li Jinghe, Mr Ricky Lau, Ms Mary Ma, Mr Andy Xie, Mr Jiao Jisheng, Mr Ma Limin, Mr Xiao Geng, Ms Ye Shuhong, Mr Zhou Jianguo are newly elected directors/supervisors in December 2007.

## E Changes of Directors, Supervisors and Senior Management

### 1 Changes of directors

On 15 June 2007, the 2006 SDB Annual General Meeting elected Mr Xiao Suining as director of the 6th board of the Bank, Mr Robert T. Barnum and Mr Sun Changji as independent director of the 6th board of the Bank.

On December 2007, the 6th board of the Bank expired. On 19 December 2007, the 3rd Extraordinary General Meeting elected the 7th board. Mr Frank N. Newman, Mr Daniel A. Carroll, Mr Shan Weijian, Ms Mary Ma, Mr Ricky Lau, Mr Li Jinghe, Mr Wang Kaiguo, Mr Xiao Suining, Mr Liu Baorui, Mr Hu Yuefei, Mr Michael O'Hanlon, Mr Robert T. Barnum, Mr Chen Wuzhao, and Mr Andy Xie were elected as director of the 7th board of the Bank, among which Mr Michael O'Hanlon, Mr Robert T. Barnum, Mr Chen Wuzhao, and Mr Andy Xie were independent directors.

The appointment of Mr Frank N. Newman, Mr Daniel A. Carroll, Mr Shan Weijian, Mr Wang Kaiguo, Mr Xiao Suining, Mr Michael O'Hanlon, and Mr Robert T. Barnum have been approved by the CBRC. The appointment of Ms Mary Ma, Mr Ricky Lau, Mr Li Jinghe, Mr Liu Baorui, Mr Hu Yuefei, Mr Chen Wuzhao, and Mr Andy Xie has been filed with the CBRC for examination and approval.

The tenures of former directors of the 6th board Mr Au Ngai, Mr Qian Benyuan, Mr Cai Zhenxiang, Mr Jin Shiru, and former independent director Mr Yuan Chengdi, Mr Hao Zhujiang, Mr Zheng Xueding, and Mr Sun Changji have expired. They will not serve as director or independent director for the Bank.

Note: The appointment of Mr Liu Baorui, Mr Hu Yuefei and Mr Chen Wuzhao have been approved by the CBRC in January 2008.

### 2 Changes of supervisors

On 19 December 2007, the 3rd Extraordinary General Meeting elected Mr Kang Dian, Mr Guan Weili, Mr Xiao Geng, and Mr Zhou Jianguo as supervisor of the 6th board of supervisors of the Bank, among which Mr Kang Dian and Mr Guan Weili were elected as external supervisors.

In December 2007, Mr Jiao Jisheng, Mr Ma Limin and Ms Ye Shuhong were elected by the staff of the Bank as employee supervisor of the 6th board of supervisors.

The tenures of former supervisors of the 5th board of supervisors Ms Wang Kuizhi and Mr Luo Long, employee supervisor Mr Huang Shouyan, Mr Qiu Weiping, and Mr Wu Zhengzhang have expired. They will not serve as supervisor for the Bank.

### 3 Changes of senior executives

On 7 February 2007, the 25th meeting of the 6th board of the Bank approved relevant resolution and engaged Mr Xiao Suining as president of the Bank. On 28 April 2007, the appointment of president for Mr Xiao Suining was approved by the CBRC.

## F Employees of the Bank

At 31 December 2007, the Bank had 8,573 employees working for the Bank, including 4,747 business staff, 2,440 accounting staff and tellers, 853 administrative and support staff, 533 operations and other staff. 64% of the staff of the Bank hold bachelor degree or above, and 92% hold college degree or above. The Bank also bears the expenses for 143 retirees.

In addition, the Bank engages a certain number of contingent employees, some of whom will be converted to regular employees in accordance with the regulation, the Bank's policy and need for future business development.

# Report of the Board of Directors

## A Discussion and Analysis of Operations in the Reporting Period

### 1 Scope of operations

The Bank engages in a variety of banking operations as permitted by the relevant regulatory authorities. These include the following:

- Renminbi deposits, loans, settlement, and remittance
- Renminbi drafts acceptances and discounting
- Trust business
- Issuance and trading of Renminbi-denominated securities permitted by the regulatory authorities
- Foreign currency deposits and remittance
- Borrowing in and outside of China
- Issue and brokering the issue of securities of foreign currency
- Trading and non-trading settlement
- Foreign currency drafts acceptances and discounting
- Foreign currency advances
- Brokering foreign currency and foreign securities trading, proprietary foreign currency trading
- Creditworthiness investigation, advisory and witness business
- Insurance agency
- Other businesses approved or permitted by the regulatory authorities

We are one of the commercial banks licensed to operate nationwide in China. Our distribution network is strategically concentrated in China's relatively affluent regions, such as the Pearl Delta Region, Bohai Rim and Yangtze River Delta, with a new focus on developing a network in the key cities of western China.

### 2 Financial Review

<i>In RMB million</i>	Reported year	Previous year	±%
Operating Income	10,808	7,818	38
Operating Profit	3,722	2,041	82
Net Profit	2,650	1,412	88

In 2007 the Bank again reported solid growth, benefiting from the stable and rapid growth of China's macro economy and the improvement of the Bank's internal business mix and operational efficiency.

Net profit rose by 88% compared with a year ago (or 103% compared with net profit in 2006, unadjusted under the new accounting standard) to RMB2,650 million Yuan. This outstanding performance was attributable to steady business expansion, effective balance sheet management, business mix optimization, the promotion of fee business income and a decline of the effective tax rate. Return on average equity rose by 8.96 percentage points to 33.41% in 2007. EPS grew by 87% to RMB1.27 Yuan compared with a year ago.

#### Income and Profit

Net interest income is still the major contributor to the Bank's profit. The proportion of net interest income to operating income, however, declined to some extent and the Bank's income structure developed in a more diverse way as a result of product innovation and fee business expansion. In 2007, net interest income rose to RMB9,606 million Yuan, an increase of 37% compared with a year ago. The proportion of net interest income to operating income was 88.88%, a decline of 0.65% from 89.53% a year ago. The increase in net interest income reflects the growth of interest-earning assets and the widening of the interest spread.

	2007	2006	Changes
Average daily interest-earning assets yield	<b>5.82%</b>	5.08%	+74bp
Average daily interest bearing liabilities cost	<b>2.83%</b>	2.23%	+60bp
Average daily loan yield	<b>6.97%</b>	6.11%	+86bp
Average deposit cost	<b>1.93%</b>	1.67%	+26bp
Net interest margin	<b>3.10%</b>	2.94%	+16bp

Note: Net interest margin (NIM) = Net interest income/average daily interest-earning assets balance

In the reporting period net interest margin was widened from 2.94% in 2006 to 3.10% in 2007, due to the optimized balance sheet structure and rise in interest rates, which also reflects the improvement of asset profitability of the Bank.

Net non-interest income reported solid performance in 2007, rising by 47% to RMB1,202 million Yuan; fee and commission income rose by 51% to RMB521 million Yuan.

Compared with operating income growth rate of 38%, operating expenses grew by 30%, mainly due to the growth in staff numbers and business coupled with the compensation reform introduced by the Bank. The cost to income ratio of 38.93% was 2.48% lower than in 2006. The Bank's operating expenses included staff costs of RMB2,130 million Yuan, an increase of 45% over 2006; business expenditures of RMB1,435 million Yuan, an increase of 25% over 2006; and depreciation and amortization of RMB642 million Yuan, an increase of 4% over 2006.

The average rate of income tax amounted to 29.74% in 2007, a drop of 3.72 percentage points from 33.46% in 2006.

#### Asset size

<i>In RMB million</i>	2007	2006	±%
Average daily interest-earning assets	<b>309,801</b>	237,680	30
Average daily interest liabilities	<b>297,761</b>	227,112	31
Average daily deposits	<b>261,208</b>	212,401	23
Average daily loans	<b>204,001</b>	160,986	27

In the reporting period, interest-earning assets were further expanded, the balance sheet structure further optimized, and the capital base effectively supplemented. At 31 December 2007, total assets grew by 35% to RMB352,539 million Yuan. Total loans (including discounted bills) grew by 22% to RMB221,814 million Yuan. Total liabilities increased by 34% to RMB339,533 million Yuan. Total deposits grew by 21% to RMB281,277 million Yuan. Owners' equity rose by 97% to RMB13,006 million Yuan.

#### Asset quality

Asset quality continued its improvement trend in 2007, and in 2007 the Bank achieved a dual-decline in the NPL balance and NPL ratio following measure to improve its internal management and collection processes. This was achieved by a combination of the Bank's own initiatives and market measures.

The Bank reported RMB12,476 million Yuan in NPLs at 31 December 2007, almost all of which were legacy loans made before 1 January 2005. New loans made after 1 January 2005 were almost all of good quality, with an NPL ratio of less than 1%. The NPL ratio showed a continuous decline over the year, with 5.62% at the end of reporting period, compared with 8.3% at 30 June 2006, 7.98% at 31 December 2006 and 7% at 30 June 2007.

### 3 Business review

#### Corporate banking business

In 2007 corporate deposits rose by 22%, a growth rate ranked number four among 14 national commercial banks (note: the ranking excluding the three newly-opened commercial banks, i.e. Evergrowing Bank, China Zheshang Bank and China Bohai Bank. same as below). General loan balance rose by 19%, ranked number eight among 14 national commercial banks. Trade finance kept high asset quality while keeping the trend of size expansion. At the end of December, the number of trade finance clients increased by 52.2%; and on-and-off balance sheet credit balance of trade finance rose by 38.92%. That makes up 26.2% of corporate facilities across the Bank, a proportion 4.66 percentage points higher than in the beginning of the year. The trade finance mainly focused on the three major industries, i.e. steel and nonferrous metal, auto, and energy and chemistry. Client base of trade finance largely concentrated on SMEs, which made up 84.9% of business volumes, fairly in line with the transformation strategy for corporate business that "facing SMEs and facing trade finance". The business mainly focused on southern China, whereas facilities proportion in northern and eastern China was promoted with improvement of trade finance across the Bank.

In 2007 the Bank continuously boosted the research and development of "supply chain business", resulting in production of a series of "pool products" such as Export Account Receivables Pool, Export Invoice Pool Finance, and Export Tax Rebate Pool, introduction of various innovative products and services such as Import Forex Management and Corporate Golden Guard, and the complete launch of the electronic operation platform for trade finance. The Bank also deepened cooperation with large strategic partners (Cosco, Sinotrans, Zhongchu, CRE, UPS, etc) and industry price information provider such as Chinaccm.Com. The value of goods under monitoring amounted to over RMB100,000 million Yuan. The Bank successfully joined the Factoring Chain International (FCI), laying the foundation for developing international factoring business.

In 2007 the Bank carried out campaigns to increase corporate brand awareness in various ways. The "SDB supply chain finance" increasingly earned market reputation, and was granted a number of awards by domestic and overseas media and academic institutes, including "2006 Commercial Beacon", "2007 Global Excellent Innovative Financial Product", "2007 Best Commercial Model in China", and "Award for Outstanding Contribution to SME Financing".

### Retail banking

In 2007, retail deposit balance (including wealth management deposits) rose by 21%, a growth rate ranked number five among 14 national commercial banks. Retail loan balance rose by 63%, a growth rate putting SDB in the number two ranking among 14 national commercial banks. The proportion of retail loan balance to gross loan balance of the Bank rose by 7.3 percentage points over the beginning of the year. With the expanding market share, the retail business contributed a relatively higher capital return to the Bank.

In 2007, the Bank actively searched for a wide spectrum of innovative modes for wealth management products; followed the global trends and produced a number of financial derivative trading related products, new share subscription products, and fund investment products. The series products “Gold For Interest”, “Fund For Interest”, and the innovative “Ju Cai Card” combining various wealth management functions, were highly accepted by clients. In 2007, the Bank introduced or developed 197 wealth management products. Sales revenue of wealth management products amounted to RMB15,030 million Yuan, increased by 13,085 million yuan, or 673% compared with 2006. Up to the end of 2007 the Bank underwrote some 60% of the fund types in market, and fund transaction volume showed strong growth over the prior year. As a result fee business income rose by 420% and sales volume rose by 360%.

Following the five mortgage products including the Bi-weekly Mortgage Payments, Non-trading Transfer Mortgage, Revolving Loans, Offset Loans, and Transactional Fund Monitor with distinctive features, in 2007 the Bank successively developed and launched four innovative mortgage products or channels including the Balloon Loans, Wholesale Mortgage, on-line self-service property trading transaction, and Mortgage Credit Card, which aroused quite attention in real estate market and achieved good result.

In 2007 the credit card business developed with momentum in market segmentation. The Bank successively produced five new credit card products, including the Au-chan Card, Hong Kong Traveling Card, Shenzhen Central Walk Card, Mortgage Credit Card, and SDB-Dangdang Co-branded Card. The instalment business witnessed rapid development with continuous geographical expansion and sales volume growth of 185% over 2006. The sales channels for credit card have been expanded from 18 cities where the branches located to 35 cities in China, reflecting notable improvement of sales capability. Up to 31 December 2007, the Bank issued 1.88 million credit cards in force, an increase of 191% compared with the same period of last year. That includes 1.37 million credit cards newly issued in 2007, an increase of 419% compared with the same period last year.

Pursuing to the concept of customer-first and creating manifold spaces for wealth management, in 2007 the new wealth management brand “Tian Ji Wealth Management” was born and the first flagship store of “Tian Ji Wealth Management” was opened in Shenzhen. At present the medium-sized Tian Ji Wealth Management Centers are being established in major cities such as Beijing, Shanghai, Shenzhen, Guangzhou, Hangzhou, and Nanjing. The brand name of auto finance (retail) was recognized by world famous auto group. The Bank entered into cooperation agreement of retail finance with the BMW group.

### Inter-bank business

In 2007, the traditional inter-bank business was steadily developed, coupled with enhanced product innovation, improved and enriched profitability modes, and realization of diversified profit sources. While expanding business size stably, the Bank promoted profitability of inter-bank business mix and drove the continuous and healthy development of inter-bank business across the bank.

In the reported year, the treasury department cooperated with the retail department and produced a variety of wealth management products linked to stock, stock index, fund, agriculture product, and carbon dioxide, with outstanding increase in the product number, volumes and profits over 2006. The transaction volume and client number of gold business ranked number one among local banks of Shenzhen, with clients of personal gold barter business amounting to 12,000 as number two in China. The press conference for gold business was put at the CCTV News Broadcast in golden hour and aroused widespread social response.

Meanwhile, the Bank drove the securities third party custody business in a comprehensive manner and gained substantial progress, as more than 200,000 accounts opened at the Bank, including over 100,000 effective VIP accounts (account with deposits over RMB50,000 Yuan). At December 31 2007, average daily balance of inter-bank deposits amounted to RMB28,227 million Yuan, an increase of 149% compared with the beginning of the year.



#### 4 Segmental information

##### Deposits by geographical region at the end of year

REGIONS <i>In RMB'000</i>	31 December 2007		31 December 2006	
	Amount	%	Amount	%
Southern China	102,538,639	37	85,846,169	37
Eastern China	93,612,965	33	82,297,507	36
Northern and North East China	68,456,759	24	51,750,119	22
South West China	16,668,618	6	12,312,533	5
<b>Total</b>	<b>281,276,981</b>	<b>100</b>	<b>232,206,328</b>	<b>100</b>

##### Loans (including discounted bills by geographical region at the end of year)

REGIONS <i>In RMB'000</i>	31 December 2007		31 December 2006	
	Amount	%	Amount	%
Southern China	79,420,087	36	66,651,390	36
Eastern China	78,066,203	35	62,993,976	35
Northern and North East China	49,966,780	23	41,675,895	23
South West China	14,360,528	6	10,860,686	6
<b>Total</b>	<b>221,813,598</b>	<b>100</b>	<b>182,181,947</b>	<b>100</b>

##### Operating income and operating revenue by geographical region in 2007

REGIONS <i>In RMB'000</i>	Operating income	Operating expenses	Operating revenue before provision	Percentage of operating
				revenue before provision by region
Southern China	5,762,019	2,563,408	3,198,611	55
Eastern China	2,868,882	1,321,884	1,546,998	27
Northern and North East China	1,625,736	884,654	741,082	13
South West China	550,865	261,855	289,010	5
<b>Total</b>	<b>10,807,502</b>	<b>5,031,801</b>	<b>5,775,701</b>	<b>100</b>

Business in southern China comprises business at the head office. As the bond and fund trading business were centralized at the head office, the revenue before provision shows higher proportion in southern China compared with other regions.

##### Operating business by type and product in the reported year

BUSINESS TYPES <i>In RMB'000</i>	2007	2006	±%
Loan interest income	14,222,092	9,837,215	45
Inter-bank income	2,381,288	1,290,800	84
Income on securities reverse repurchase agreements	139,415	60,826	129
Securities investment interest income	1,301,105	879,579	48
Fees, commission and other business income	1,347,501	935,646	44
<b>Total</b>	<b>19,391,401</b>	<b>13,004,066</b>	<b>49</b>

## 5 Profit segments by period

The 2007 profit segmental information by period is as follows:

<i>In RMB'000</i>	1Q	2Q	Jan-Jun	3Q	4Q	Jul-Dec	2007
Operating income	2,352,129	2,538,586	4,890,715	2,876,479	3,040,308	5,916,787	10,807,502
Net interest income	2,137,412	2,296,673	4,434,085	2,502,486	2,669,278	5,171,764	9,605,849
Net fee and commission income	82,320	127,195	209,515	112,405	198,793	311,198	520,713
Net other operating income	132,397	114,718	247,115	261,588	172,237	433,825	680,940
Operating expenses	1,055,073	1,156,380	2,211,454	1,303,638	1,516,709	2,820,347	5,031,801
Business tax and surcharge	167,115	186,100	353,215	224,346	246,746	471,092	824,307
General and administrative expenses	887,959	970,280	1,858,239	1,079,292	1,269,963	2,349,255	4,207,494
Operating profit before provision	1,297,055	1,382,206	2,679,261	1,572,841	1,523,599	3,096,439	5,775,701
Asset impairment loss	479,037	518,450	997,487	478,188	578,084	1,056,273	2,053,759
Operating profit	818,019	863,756	1,681,775	1,094,652	945,515	2,040,167	3,721,942
Net non-operating gains/losses	3,254	4,895	8,149	-1,586	43,270	41,684	49,833
Profit before tax	821,272	868,651	1,689,924	1,093,066	988,785	2,081,851	3,771,775
Income tax	286,189	279,753	565,941	343,432	212,499	555,931	1,121,872
Net profit	535,084	588,899	1,123,983	749,634	776,286	1,525,920	2,649,903

## 6 Challenges and solutions for the Bank

**i** Capital stringency. Capital inadequacy had restricted the Bank's business development and client credit lines, which to some extent had an impact on our cooperation with good quality clients. The solution was to enhance fund efficiency and product pricing management in order to promote profitability and accumulate capital, while supplementing core capital and tier 2 capital through the implementation of the Bank's warrant plan, sub-debts and hybrid bonds plan, as well as private placement. With the completion of share reform and supplementary warrant exercise fund, the Bank was able to meet Core CAR regulatory requirements at the end of 2007. Capital stringency will be fundamentally solved in 2008 following the further implementation of the core capital plan and tier-2 capital plan.

**ii** Impact of macroeconomic controls. The PBOC credit squeeze policy in the latter half of 2007 had a critical effect on both the loan and deposit business. The bank responded by adjusting the orientation of its lending activities, shifting the focus to clients in compliance with state credit policy, clients with longstanding business relationships and significant incremental growth potential, including good-quality medium-sized clients. Viewing the PBOC's new macroeconomic policy as an opportunity, the Bank adjusted its client mix, business mix and income mix; further promoted its bargaining power and loan profitability; developed products without using credit facilities; further adjusted its capital mix; reduced capital consumption and boosted business fees income.

**iii** Increased competition with peer banks. The Bank has faced fiercer competition as other joint-stock commercial banks, foreign banks and even state-owned banks have increased their presence in trade finance and other businesses in which the Bank has traditionally enjoyed a competitive advantage. In response to this increased competition, the Bank is now focusing on promoting its core competitiveness and capability for innovation. It is building multi-dimensional business platforms in R&D; risk control, system and process; electronic systems and cross-business cooperation, so as to maintain the Bank's market leadership in trade finance and other key businesses.

## 7 Influence of changes in business environment, macroeconomic policies and regulations on the financial position and operating results of the Bank

To prevent excessive liquidity from overheating the Chinese economy, the PBOC took various measures in 2007 to restrain the lending activities of commercial banks. These included increasing deposit and loan interest rates on six occasions and increasing required reserve ratios on ten occasions, providing window guidance to commercial banks and issuing PBOC bills. In the reported year, the Bank strictly abided by the guidance of the PBOC, controlling its loan scale and refraining from lending to the eleven industries identified by the PBOC as facing overcapacity, as well as to industries characterized by high pollution and high consumption of energy and resources.

Despite the operational pressures arising from these lending constraints, the Bank was able to ensure strong business results and the healthy development of its various businesses through asset and liability management, business transformation and product innovation. Enhanced internal management meant that the series of increases to the required reserve ratio did not create a major impact on liquidity. The interest rate increases also had a relatively positive impact on the Bank's interest spread.

In 2007, the US sub-prime loan crisis led to turbulence in the global capital markets. However, SDB held no sub-prime assets. In addition, the bank had already taken measures well before the crisis to dispose of almost all of its USD-denominated risk assets. As of the end of 2007, the bank's total amount of USD-denominated assets exposed to market risk was \$10 million. The net value of these bonds after impairment charges amounted to RMB 43.04 million.

## 8. Future expectations and operational planning for 2008

It is expected that China's macro-economy will continue to develop healthily in 2008, creating sound conditions for the Bank to sustain its own development momentum. Macro credit control policies will limit the growth of lending. However, the Bank expects to achieve good growth in deposits, loans, net fee revenue and profit. The Bank also expects to enjoy a healthy interest spread, based on current PBOC rates. The Bank expects to be more active in enhancing its non-loan businesses and customer service, as well as its internal management (including internal risk control), which will further consolidate the Bank's sound prospects for growth in both 2008 and upcoming years.

In the year 2008, the Bank will focus on:

- i** Enhancing infrastructure and developing service outlets and channels. Now that it has met the appropriate CCAR and CAR requirements, in 2008 the Bank intends to open at least two fully-functional branches and more sub-branches in economic hub regions, subject to regulatory approval. The Bank also plans to add more self-service banking equipment and to further improve its on-line banking and phone banking services. SDB will invest more into its growing credit card business, a segment shows promise of future profitability.
- ii** Reinforcing capital management and balancing business risk and profit. The Bank will pursue a prudent balance sheet management policy in order to ensure rational growth of assets within strict capital constraints through assessment planning and limit controls. The Bank will continue to adjust its capital adequacy ratio by means of private placements, sub-debts and hybrid bonds to ensure that the ratio is appropriate to its business development plans and in line with regulatory requirements.
- iii** Promoting management and service efficiency. The Bank will further optimize its business mix, accelerate its product innovation efforts and exploit new profit channels and business development areas so as to boost its competitiveness and profitability.

In corporate banking, the Bank will build up the sales and marketing functions of its supply chain finance business under the joint action of HQ and branches. It will reinforce marketing campaigns and sales efforts towards key client corporations in the supply chain finance field and build a service model that differentiates among different segments of the client base to provide more tailored service offering. It will also actively develop innovative products that integrate the deposit, loan, and remittance; improve the management of the product managers' team; and boost service efficiency through technical innovation.

In retail banking, the Bank will build and optimize various sales channels in order to form a three-dimensional sales and service network that maximises database cross-selling. It will seek to rapidly expand the client base of its basic products, including credit card, debit card and Ju Cai Card, by forging alliances with retailers, financial institutions and luxury sellers. The Bank will also develop a mix of gold and foreign exchange accounts, insurance products and investment fund products. It will start the standardized remodeling of outlets across the Bank and begin construction of wealth management centers in the main cities of economically pivotal regions.

In its inter-banking business, the Bank will actively seek the licensing of new businesses. It will apply both for a QDII license and to qualify as a market maker to the Foreign Exchange Trading Center. This will enrich the wealth management brand names and create new profit growth opportunities.

**iv** Improving risk management and credit control. The Bank expects the credit portfolio to continue to improve in quality in 2008. To this end, the Bank will ensure its lending activities are in compliance with state macro-control policy and will maintain the high quality of new loans. The Bank will address its NPL portfolio through a combination of collection and market measures. It will continue to promote asset quality and will further strengthen internal control and audit procedures to minimise operational risk.

**v** Further improving the compliance system. The Bank will seek to cultivate a compliance culture by comprehensively reengineering, streamlining and optimizing various systems and business processes. The aim is to build, step-by-step, a process-oriented bank. This will provide a solid platform for strong and diversified business development.

## 9 Capital plan

In accordance with the Proposal for Call Warrants Issuance of Shenzhen Development Bank Co., Ltd, reviewed and approved by the 2007 1st Extraordinary General Meeting & Relevant General Meeting on June 8, 2007 and approved by the China Securities Regulatory Commission, the Bank implemented a share reform plan by issuing 208,675,834 free Bermuda warrants with duration of six months and 104,337,917 free Bermuda warrants with duration of twelve months to all registered shareholders listed on the equity registration day (25 June, 2007). In the reported year, the Bank has completed the exercise of the first block of warrants with an actual exercise rate of 99.03%, bringing core capital of some RMB3,900 million Yuan to the Bank.

Up to December 31, 2007, the CCAR and CAR of the Bank were both 5.77%, with the CCAR higher than the regulatory threshold of 4%. The second block of warrants will be exercised in the middle of 2008. Providing the warrants are fully exercised, this will bring core capital of around RMB1,900 million Yuan to the Bank, further strengthening the CCAR and CAR.

On 20 July, 2007, the 2007 2nd Extraordinary General Meeting of the Bank approved the Proposal of Sub-debt Issue of Shenzhen Development Bank and Proposal of Hybrid Capital Bonds Issue of Shenzhen Development Bank. The Bank proposes to issue sub-debts and hybrid capital bonds of no more than RMB8 billion Yuan respectively. According to the resolution of this general meeting, the 34th meeting of the 6th Board reviewed and approved the Proposal for Determination of Primary Terms of sub-debt issue on 15 August, 2007. In accordance with this resolution, the Bank will issue sub-debt of no more than RMB7 billion Yuan. If the plan is implemented, it would bring tier 2 capital of RMB7 billion Yuan to the Bank.

On December 19, 2007, the 2007 4th Extraordinary General Meeting of the Bank approved the private placement transaction with the Baosteel Group. In accordance with the plan, the Bank is to issue 120 million RMB-dominated ordinary shares at the price of RMB35.15 Yuan. If the plan is implemented, it will bring core capital of RMB4,200 million Yuan to the Bank.

The Bank has applied to the relevant regulatory authorities for review and approval of the sub-debt and Baosteel private placement plans.

Provided that it is able to issue sub-debt of RMB7,000 million Yuan as planned, the Bank stands to meet the regulatory requirement of 8% CAR in 2008, regardless of any changes to the equity base brought about by revenue increase, or incremental changes in RWA brought about by business growth. At that point, the CCAR and CAR of the Bank would all meet the required standards.

*Note: The sub-debt plan was approved by the China Banking Regulatory Commission on February 1, 2008 and approved by the People's Bank of China on March 13, 2008.*

## 10 Investments of the Bank in the reported year

### Shareholding of other listed company

CODE	Name	Initial investment	Portion of total shareholding	Ending face value	Gains/Losses in reported period	Change of equity in reported year	Accounting classification	Reason of acquiring
<i>In RMB'000</i>								
000002	China Vanke Co., Ltd.	1,061	-	-	118,350	-57,849	Available-for-sale	Historical investment
000040	Shenzhen Hongkai Group Co., Ltd.	3,215	0.30%	12,770	-	8,494	Available-for-sale	Historical investment
000031	COFCO Property (Group) Co., Ltd.	2,520	-	-	57,674	-11,743	Available-for-sale	Historical investment
000005	Shenzhen Fountain Corporation	405	0.04%	2,559	-	1,550	Available-for-sale	Historical investment
000150	Yihua Real Estate	10,000	2.79%	10,000	-	-	Long term equity	Repossession
000505	Pearl River Holdings Co., Ltd.	9,650	0.27%	-	-	-	Long term equity	Historical investment
600515	The First Investment & Merchant Co., Ltd.	664	0.22%	-	-	-	Long term equity	Historical investment
600038	Hafei Aviation Industry Co., Ltd.	39,088	0.37%	39,088	-	-	Available-for-sale	Repossession
600664	Harbin Pharmaceutical Group Co., Ltd.	80,199	0.39%	80,199	-	-	Available-for-sale	Repossession
<b>Total</b>		<b>146,802</b>		<b>144,616</b>	<b>176,024</b>	<b>-59,548</b>		

The above investments are all either historical investments or repossessed equity of the Bank. With the share reform and expiration of the restricted period, the Bank is gradually settling these investments.

### Shareholding of unlisted financial institutions and unlisted companies

#### NAME OF INVESTED COMPANY

<i>In RMB'000</i>	Investment amount	Impairment provision	Ending face value
Shenzhen Yuansheng Industrial Co., Ltd.	507,348	391,117	116,231
China Bank Unionpay Co. Ltd.	50,000	-	50,000
Yongan Insurance Company	67,000	30,470	36,530
Wuhan Steel Electricity Co., Ltd.	32,175	-	32,175
Shenzhen Zhongnan Industrial Co., Ltd.	2,500	-	2,500
SWIFT	230	-	230
Taiyang Securities Co., Ltd.	4,283	-	4,283
Jintian Industrial Group Co., Ltd.	9,662	9,662	-
Hainan Wuzhou Traveling Co., Ltd.	5,220	5,220	-
Meizhou Terylene Group Company	1,100	1,100	-
Hainan Junhe Traveling Co., Ltd.	2,800	2,800	-
Guangdong Samsung Corporate Group Co., Ltd.	500	500	-
Hainan Baiyunshan Co., Ltd.	1,000	1,000	-
Hainan Saige Co., Ltd.	1,000	1,000	-
Hainan Zhonghailian Real Estate Co., Ltd.	1,000	1,000	-
Shenzhen Jiafen Textile Company	16,725	16,725	-
<b>Total</b>	<b>702,543</b>	<b>460,594</b>	<b>241,949</b>

The above investments are all either historical investments or repossessed equity of the Bank.



### Controlling subsidiary

The Bank has not increased investment in its controlled subsidiary or any other equity. At the request of CBRC, the Bank is working towards decoupling from its controlling subsidiary Yuansheng Company and liquidating other equity investments.

### Use of raised funds

Up to the end of the reported year, the Bank has completed the exercise of the first block of warrants with an actual exercise rate of 99.03%, raising funds of some RMB3,900 million Yuan. All of these funds have been used to add core capital, after deducting relevant expenses.

### Investment and return on major non-share-offering investment projects

The Bank was not involved in any non-share-offering investment projects during the reported year.

## 11 Items with over 30% growth in the comparative financial statements

ITEMS IN FINANCIAL STATEMENTS	±%	Cause for change
Cash and PBOC placement	55	Rise of required reserve ratio
Precious metal	100	New business for the year
Inter-bank placement	30	Increase of inter-bank placement
Financial assets designated at fair value and changes of which are booked as gains/losses in the period	246	Increase of wealth management
Derivative financial assets	1,182	Increase of derivative products for running off position in wealth management
Reverse repurchase agreements of financial assets	200	Considerable business growth
Interest receivable	67	Increase of loans and interest rate
Bond assets receivable	100	Purchase of PBOC bills
Intangible assets	155	Increase of software purchase
Other assets	46	Funds of warrant under settlement
Inter-bank and other financial institution deposits	90	Significant growth of inter-bank deposits
Inter-bank borrowing	100	Newly added for the year
Financial liabilities designated at fair value and changes of which are booked as gains/losses in the period	158	Growth of wealth management
Derivative financial liabilities	808	Increase of derivative instruments incorporated in wealth management products
Repurchase agreements of financial assets	2,122	Substantial business growth
Salaries payable	51	Expenses increase due to growth of staff number and performance
Tax payable	62	Increase of taxable income in the period
Interest payable	83	Growth of deposits and interest rate
Accrued liabilities	40	Accrued provision for pending litigation
Liabilities of deferred income tax	62	Changes in profitability of different regions with different tax rates
Capital reserve	216	Exercise of first block warrants
Surplus reserve	58	Profit distribution
General risk provision	62	General risk provision as 1% of risky assets
Undistributed profits	138	Considerable increase of profit in the period
Net interest income	37	Growth of business and interest spread
Fee and commission income	51	Increase of fee driven by product variety, business size
Return on investment	102	Increase in income from securities sales
Foreign exchange gain	59	Business growth
Net income of other business	46	Business growth
Business tax and surcharge	49	Substantial growth of operating income
Non-operating expenses	86	Add the provision for pending litigation
Total profit	78	Significant increase of operating income
Income tax	58	Increase of taxable income
Net profit	88	Significant increase of operating income

## 12 Explanation made by the Board on accounting policy changes

According to MOF [2006] No.3 Notification on Issuing the 38 Specific Accounting Rules of the Corporate Accounting Standards No.1 – Inventory, listed companies shall implement 38 new corporate accounting rules from 1 January 2007. The Bank has implemented the new accounting standards completely from 1 January 2007 and in instances where items from 2007 are compared with items from previous fiscal years, has made retrospective adjustments to the latter according to the Specific Accounting Rules of the Corporate Accounting Standards No.38 – Execution of Corporate Accounting Standards for the First Time, and the (CSRC Accounting [2007] No. 10) FAQ No.7 for Information Disclosure Regulation of Publicly Listed Companies – Compilation and Disclosure of Compared Accounting Information during the Transformation of Old and New Accounting Standards.

### Adjustment of 2006 Net Profit

*In RMB'000*

2006 Net Profit (Former Accounting Standard)	1,302,906
Total Impact of Item for Retrospective Adjustment	109,041
Including: Financial guarantee contract	-4,815
Changes in value of investment properties	132,176
Impact on income tax of the above two adjustments	-18,320
2006 Net Profit (New Accounting Standard)	1,411,947

## 13 Work summary of the Board of Directors

### Meetings and resolutions of the Board of Directors in the reported year

The 24th meeting of the 6th Board of Directors of the Bank was held on 25 January 2007. The meeting reviewed and approved the 4th quarter write-off proposal, the SDB Supplementary Pension Plan, the Proposal about Confirming the Titles of Several Senior Executives, the Proposal about Revision of the Committees' Charters, the Proposal about Further Confirming the CCO's Credit Approval Authority, the Proposal of 2007 Business Projection and Financial Projection and others. The relevant resolutions were published in China Securities and the Securities Times on 26 January 2007.

The 25th meeting of the 6th Board of Directors of the Bank was held on 7 February 2007. The meeting reviewed and approved the Proposal of Engaging Mr Xiao Suining as the President of Shenzhen Development Bank Co., Ltd., and the Proposal of Nominating Mr Xiao Suining as Candidate for Director of Shenzhen Development Bank Co., Ltd. The relevant resolutions were published in China Securities and the Securities Times on 9 February 2007.

The 26th meeting of the 6th Board of Directors of the Bank was held on 20 March 2007. The meeting reviewed and approved the 2006 Financial Report, the Proposal of 2006 Profit Distribution, the Accounting Statements and Auditors Report for Shenzhen Development Bank Co. Ltd. for the Year Ended on 31 December 2006 by Shenzhen Pengcheng CPA, the Shenzhen Development Bank Co. Ltd. Annual Auditors Report provided by Ernst and Young on 31 December 2006, the Shenzhen Development Bank Co. Ltd. 2006 Annual Report and Annual Report Abstract, the Proposal of Identification of SDB Investment Properties, the Proposal of Performing Off-site Approval for Credits RPTs, the Proposal of Six Related Party Transactions with Lenovo Group Limited, etc., the Proposal of 2006 Performance Bonuses for Senior Officers, and others. The relevant resolutions were published in China Securities and the Securities Times on 22 March 2007.

The 27th meeting of the 6th Board of Directors of the Bank was held on 25 April 2007. The meeting reviewed and approved the 2007 1Q Report, the Proposal of 2007 1Q Loan Write-offs, the Proposal of Related Party Transactions, the Proposal for Implementing the New Corporate Accounting Standards, the Anti-fraud Initiatives Required by CBRC, the Provisional Rules for Compensation Management of Senior Executives of SDB, the Total Target Bonus for Executives for 2007, the 2007 Deferred Bonus Plan and total amount for Key Officials, the Proposal regarding Committee Membership Adjustment, the Proposal for Nominating Mr Sun Changji as Independent Director of Shenzhen Development Bank, the Proposal for Nominating Mr Robert T. Barnum as Independent Director of Shenzhen Development Bank, the 2006 Board of Directors Report, the 2007 Budget Report, the Proposal for Purchasing D&O Insurance, the Proposal for Engaging Auditor for 2007 Audit, the Proposal for Compensation of Directors and Supervisors, the Proposal for Revisions of the Articles of Association, the Proposal for Convening the 2006 Annual Shareholders General Meeting and others. The relevant resolutions were published in China Securities and the Securities Times on 26 April 2007.

The 28th meeting of the 6th Board of Directors of the Bank was held on 11 May 2007. The meeting reviewed and approved the Proposal for Shenzhen Development Bank Co., Ltd. Share Reform Plan, the Proposal for Soliciting Voting Rights of 1st Temporary General Assembly of Shareholders & Relevant General Meeting, the Proposal for the Issuance of Call Warrants of Shenzhen Development Bank Co., Ltd., the Proposal for the Notification on Convening the 1st Temporary General Assembly of Shareholders & Relevant General Meeting, the Proposal for Amendment of Articles of Association of Shenzhen Development Bank, the Proposal for Amendment of Meeting Rules for the Compensation Committee of SDB, the Proposal for Engagement of an Accounting Firm in 2007, the Proposal for Modification of the English Name in the Financial Franchise License and others. The relevant resolutions were published in China Securities and the Securities Times on 16 May 2007.

The 29th meeting of the 6th Board of Directors of the Bank was held on 23 May 2007. The meeting reviewed and approved the Proposal for Share Reform Plan Adjustment of Shenzhen Development Bank Co., Ltd., and the Proposal for Adjustment of Call Warrants of Shenzhen Development Bank Co., Ltd. The relevant resolutions were published in China Securities and the Securities Times on 24 May 2007.

The 30th meeting of the 6th Board of Directors of the Bank was held on 1 June 2007. The meeting reviewed and approved the Proposal of Adding Three Proposals to the 2006 Annual General Meeting, the Special Report on the Previous Usage of Funds Raised by Shenzhen Development Bank Co., Ltd. by Shenzhen Pengcheng Accounting Firm, the Proposal for the Future Usage of Funds Raised by Warrant Issuance of the Company, the Proposal for authorizing the Board of Shenzhen Development Bank Co., Ltd to handle the specific matters of warrants issuance, and others. The relevant resolutions were published in China Securities and the Securities Times on 2 June 2007.

The 31st meeting of the 6th Board of Directors of the Bank was held on 15 June 2007. The meeting reviewed and approved the Proposal for Subordinated Debt Issuance of Shenzhen Development Bank, the Proposal for the Hybrid Capital Bonds Issuance of Shenzhen Development Bank, the Proposal for Convening the 2007 2nd Temporary General Assembly of Shareholders of Shenzhen Development Bank, the Proposal to Package and Sell the Non-performing Assets of Loss Category, the Report on Self-examination and Rectification for Corporate Governance of Shenzhen Development Bank Co., Ltd., the Proposal for the Adjustment of Personnel Composition of Some Special Committees, etc. The relevant resolutions were published in China Securities and the Securities Times on 16 June 2007.

The 32nd meeting of the 6th Board of Directors of the Bank was held on 20 June 2007. The meeting decided that the shareholding registration day for warrant issuance would be 22 June 2007, and authorized the Chairman of Board to confirm the ultimate registration day in accordance with the opinion of the Shanghai Stock Exchange. The relevant resolutions were published in China Securities and the Securities Times on 22 June 2007.

The 33rd meeting of the 6th Board of Directors of the Bank was held on 26 July 2007 by means of a fax vote. The meeting reviewed and approved the SDB Self-inspection and Rectification Report on Corporate Governance and its attachment (Q&A) and the Administrative System of Information Disclosure Affairs of SDB. The relevant resolutions were published in China Securities and the Securities Times on 28 July 2007.

The 34th meeting of the 6th Board of Directors of the Bank was held on 15 August 2007. The meeting reviewed and approved the Proposal for Loan Write-off for 2Q 2007, the 30 June 2007 Interim Financial Report of SDB and the relevant Auditors' Report issued by E&Y Huaming Accounting Firm, the Proposal for 2007 Interim Profits Distribution Plan, the 2007 Semi-annual Report of SDB and the Abstract of 2007 Semi-annual Report of SDB, the Proposal for Providing Banking Facility Services to Related Party Corporation, the Proposal for the Determination of Summary Terms of sub-debt, and others. The relevant resolutions were published in China Securities and the Securities Times on 16 August 2007.

The 35th meeting of the 6th Board of Directors of the Bank was held on 5 September 2007 by means of a fax vote. The meeting reviewed and approved the Proposal of Issuing a Property Preservation Guarantee for a RMB1.5 billion Yuan loan. The relevant resolutions were published in China Securities and the Securities Times on 7 September 2007.

The 36th meeting of the 6th Board of Directors of the Bank was held on 22 October 2007. The meeting reviewed and approved the Proposal of Write-offs for 3Q 2007, the SDB 2007 3Q Financial Report, the Proposal to Provide Facilities to Three Related Party Corporations including China Electronics Corporation, the Proposal regarding Termination of Share Subscription Agreement between the Bank and GECIFC, and others. The relevant resolutions were published in China Securities and the Securities Times on 23 October 2007.

The 37th meeting of the 6th Board of Directors of the Bank was held on 30 October 2007. The meeting reviewed and approved the Revised Administrative System of Information Disclosure Affairs of SDB; the Administrative Method on Shareholding and Variance of Company Stock Held by Director, Supervisor, or Senior Management of Shenzhen Development Bank; the Report on Rectification of Corporate Governance of Shenzhen Development Bank; the Proposal of Business Property Purchase, the Proposal of Changing the Banking Operations of the Business License and others. The relevant resolutions were published in China Securities and the Securities Times on 31 October 2007.

The 38th meeting of the 6th Board of Directors of the Bank was held on 20 November 2007. The meeting reviewed and approved the Proposal for the Number and Composition of the 7th Board of Directors of SDB, the Proposal for the Cumulative Voting Rule for Election of Directors to the 7th Board of SDB, the Proposal for Electing Independent Directors to the 7th Board of Directors of SDB, the Proposal for Electing Executive Directors to the 7th Board of Directors of SDB, the Proposal for Electing Other Directors to the 7th Board of Directors of SDB, the Proposal for Submitting Proposals for the 6th BOS to the SDB 2007 3rd Extraordinary General Meeting for Approval, the Proposal for Convening the 2007 3rd Extraordinary General Meeting of SDB, the Proposal to authorize the Chairman to handle issues related to the filing of notice and agenda of the general meeting with the SSE, the Proposal of Business Property Purchase of Shanghai Branch, and others. The relevant resolutions were published in China Securities and the Securities Times on 22 November 2007.

The 39th meeting of the 6th Board of Directors of the Bank was held on 1 December 2007. The meeting reviewed and approved the Proposal of the Non-Public Offering Plan of Shenzhen Development Bank Co., Ltd., the Proposal on Approval of the Signing of the Conditional Shares Subscription Agreement between Baosteel and the Bank, the Proposal of the Feasibility Report on Usage of Funds Raised by the Non-Public Offering, the Proposal of the Special Report on Previous Usage of Funds Raised, the Proposal for Convening the 2007 4th Extraordinary General Meeting of Shenzhen Development Bank Co., Ltd, the Proposal of authorizing the Board via the General Meeting to handle all issues related to the non-public offering, the Proposal of authorizing the Chairman to handle issues related to the non-public offering, and others. The relevant resolutions were published in China Securities and the Securities Times on 3 December 2007.

### Execution of General Meeting Resolutions by the Board

The Board of Directors of the Bank has acted on all General Meeting resolutions during the reported year, including the 2006 annual profit distribution plan and the 2007 interim profit distribution plan. As of the end of the reported year, the Bank has implemented all General Meeting resolutions with the exception of those awaiting regulatory approval, such as Proposal for Sub-debt Issuance of Shenzhen Development Bank Co., Ltd. and the Proposal for Hybrid Capital Bond Issuance of Shenzhen Development Bank Co., Ltd. approved by the 2007 2nd Temporary General Meeting, and the Proposal for Private Placement Plan of Shenzhen Development Bank Co., Ltd. approved by the 2007 4th Temporary General Meeting.

### Performance of Audit and Related Party Transaction Control Committee

During the reported year, the Audit and Related Party Transaction Control Committee held a total of four meetings, helping the Board of Directors ensure the completeness of the corporate financial reporting and internal control system and the effectiveness of the internal audit function. The committee supervised the annual independent audit on corporate financial statements, evaluating the independent auditor's qualification, independence and working behavior; ensured compliance with legal and regulatory requirements; supervised the exercise and efficiency of the corporate information disclosure procedure; ensured the fairness of related party transactions and performed other duties specified by the committee's working rules.

#### (a) Two audit opinions on the corporate financial report

The Audit and Related Party Transaction Control Committee has already negotiated the timing arrangements for the 2007 annual report audit with the accounting firm, and has urged the accounting firm to submit its auditors' report within the specified time limit.

The Audit and Related Party Transaction Control Committee reviewed the financial statements prepared by the company before the auditing CPA officially started work, and concluded that the financial report already met the rules of the new accounting standards and fully reflected the asset-liability situation as of 31 December 2007, and the business result and cash flow of the company in 2007 in all significant respects.

Once work began, the Audit and Related Party Transaction Control Committee strengthened its communication with the auditing CPA. After the auditing CPA issued its preliminary audit opinion, the Audit and Related Party Transaction Control Committee reviewed the corporate financial report for the second time in the meeting held on 17 March 2008, and concluded that the financial report is truthful, accurate and complete, that it accords with corporate accounting standards and relevant regulations, and that there is no dispute with the auditing CPA on any significant issues.

Upon deliberation and review, the Audit and Related Party Transaction Control Committee approved 2007 Annual Report of Shenzhen Development Bank Co., Ltd, and submitted it to the Board of Directors for approval.

#### (b) Supervision of auditing work

The Audit and Related Party Transaction Control Committee arranged its annual audit in advance, and negotiated the scale and timing of the auditors' report with the appointed accounting firm. After the auditors started work, the committee kept in close communication with the main project managers in order to assess the progress of the audit and to stay abreast of any issues that might cause concern for the CPA. The Audit and Related Party Transaction Control Committee also urged auditors to submit the report within a specified deadline so as to ensure the timely completion of the Bank's annual auditing and information disclosure work, albeit under the pre-condition of maintaining high quality auditing work.

#### (c) Submitted summary report on auditors' work for 2007 to Board of Directors

The current CPA has completed the auditing work on the 2007 annual report and semi-annual report, and has reviewed the 1Q report and 3Q report as per an agreed procedure.

The working rules of the Audit and Related Party Transaction Control Committee require it to carry out an annual evaluation on the working behavior of the independent auditors. In this review process, the Audit and Related Party Transaction Control Committee will communicate the principles of the internal audit to senior management and review the report received from the independent auditors.

The Audit and Related Party Transaction Control Committee is satisfied with the qualifications and independence of current CPA. The CPA completed the 2007 financial statement review and other work satisfactorily according to audit regulations and rules.

#### (d) Resolution on reappointing the accounting firm for 2008

Shenzhen Development Bank Co., Ltd will engage Ernst & Young Hua Ming as its domestic audit service agency and Ernst & Young as its international audit service agency.

This proposal will be submitted to the Board of Directors meeting and General Meeting for approval.



#### Performance of Compensation and Assessment Committee

Within the reported year, the Compensation Committee held a total of five meetings, reviewed the senior management examination benchmark and carried out an examination, investigated the compensation policy and plan for directors, supervisors and senior management, and addressed other relevant compensation issues as authorized by the Board of Directors.

(a) Conclusions of examination into the compensation of directors, supervisors and senior management disclosed by this report  
The Compensation Committee received several reports from a special advisor company regarding market rates of compensation for directors, supervisors and senior management. It reviewed the compensation of SDB directors and supervisors and agreed on the proper adjustment of annual allowances and meeting allowances for directors and supervisors. This was submitted to the Board of Directors meeting and General Meeting for approval. The Compensation Committee also approved the Administrative Method for Senior Management Compensation of Shenzhen Development Bank (draft) and submitted it to the Board of Directors meeting for approval. It also reviewed and approved senior management compensation scale and specified compensation plan.

The Compensation Committee examined the compensation of directors, supervisors and senior management disclosed by this report, and concluded that it is consistent with all relevant resolutions of the General Meetings, Board of Directors meetings, Compensation Committee meetings, and other relevant systems of this company. This disclosure is truthful, accurate and complete.

(b) The company has not implemented an equity incentive plan.

#### 14 The 2006 profit distribution plan and the plan to convert capital reserve into share capital

The 2007 legitimated financial statement, audited by domestic CPA E&Y Hua Ming Accounting Firm, reports net profits of RMB2,649,902,508 Yuan, and distributable profits of RMB2,352,407,683 Yuan.

In mid-2007, the Bank appropriated a legitimated surplus reserve of RMB112,398,264 Yuan at a ratio of 10% of profits after tax (as audited by the domestic CPA), and appropriated a general provision of RMB900,000,000 Yuan. This interim profits distribution plan was approved by the general meeting.

According to the reported profit result and relevant state regulations, the profit distribution for the 2nd half of 2007 is as follows:

- i** The Bank appropriated a legitimated surplus reserve of RMB152,591,986 Yuan at a ratio of 10% of profits after tax (as audited by the domestic CPA);
- ii** The Bank appropriated a general provision of RMB136,000,000 Yuan;
- iii** In order to facilitate the long-term development of the Bank, there is no cash dividend and no statutory common reserve has been converted into capital in the 2nd half of 2007;
- iv** As a result of this profit distribution plan, the balance of the surplus reserve is RMB719,481,063 Yuan; the general provision is RMB2,715,704,345 Yuan; and the balanced undistributed profit is RMB2,063,815,697 Yuan, which shall be used for profits distribution in future years.

The above plan is subject to review and approval by the 2007 Annual General Meeting of the Bank.

## Report of Board of Supervisors

In 2007, the Board of Supervisors (BOS) of Shenzhen Development Bank has dutifully carried out the various resolutions of the General Meetings, has exercised its supervisory functions, and has successfully carried out the reelection process. Results have been achieved the monitoring of senior management duties, corporate financial status, and major business strategic decisions. This has effectively protected the interests of our shareholders.

### A Meetings of the BOS

Seven BOS meetings were held during the reported year. Detailed contents of the meetings are as follows:

#### 1 The 19th meeting by the 5th BOS

The BOS held its 19th meeting on 25 January 2007. Decisions from the BOS Audit and Risk Management Committee 3rd Annual Meeting and the BOS Nomination Committee 2nd Annual Meeting were reported. Issues regarding the Bank's share redistribution reform were discussed.

#### 2 The 20th meeting by the 5th BOS

The BOS held its 20th meeting on 19 March 2007. The gathering of SDB personnel by CBRC officials at the Bank's premises for talks on 3 March was reported; progress on share reform was discussed; the SDB 2006 Annual Financial Report and audit reports by Shenzhen Pengcheng Accountancy Firm and Ernest & Young Accountancy Firm was discussed, and the Opinions of the BOS on the 2006 SDB Annual Report were passed; the SDB 2006 BOS Report and 2007 work plan were discussed and passed, and initial plans were made for inspection work in 2007, and final confirmations were made on rules recently set out by the BOS.

#### 3 The 21st meeting by the 5th BOS

The BOS held its 21st meeting on 14 June 2007. Supervisors studied the recently issued CRBC notice on supervision, and the "Notice Regarding Studying the 'Management Regulations on shares held or transferred by Directors, Supervisors, and Senior Management of Listed Companies'" issued by the Shenzhen CSRB. A 2007 routine inspection work plan for the BOS was fully discussed, and suggestions for partial modifications to the Handbook on Routine Inspection by Branch Organizations were raised.

#### 4 The 22nd meeting by the 5th BOS

The BOS held its 22nd meeting on 7 July 2007. Issues regarding the supervisors' inspection work during the year were summarized. The supervisors held in-depth discussions on the common problems and frequently-made suggestions encountered during the inspection process. It was decided that the BOS Secretary be responsible for urgently drafting a summary report for this inspection work. It was agreed that this report would be passed by the BOS before being sent to the Board of Directors and the President's Office, and will then be sent to the relevant authorities.

#### 5 The 23rd meeting by the 5th BOS

The BOS held its 23rd meeting on 14 August 2007. Detailed discussions were held on the BOS 2007 Annual Inspection Work Report (Draft for Comment). BOS Audit and Risk Control Committee Chairman Mr Guan Weili reported on issues arising from the 17th BoD Audit Committee Meeting, including a detailed introduction to the issues relating to the Bank's 2007 2nd quarter non-performing loan write off, the Bank's reserves, and the 2007 first half financial results. The BOS reviewed the Bank's 2007 first half financial report and passed the "Opinion of SDB BOS on the SDB 2007 First Half Annual Report".

#### 6 The 24th meeting by the 5th BOS

The BOS held its 24th meeting on 30 October 2007. BOS Chairman Kang reported issues regarding the 4th BOS Nomination Committee Meeting to the BOS, detailing the progress of the reelection procedure. The BOS studied the Shenzhen CSB's "Regulatory Opinion On Shenzhen Development Bank Co., Ltd. Corporate Governance Conditions" and discussed the "Shenzhen Development Bank Corporate Governance Restructuring Report (Draft)", and passed the "BOS Opinions on the Shenzhen Development Bank Corporate Governance Restructuring Report".

#### 7 The 25th meeting by the 5th BOS

The BOS held its 25th meeting on 19 November 2007. Chairman Kang of the BOS reported on the 5th meeting of this year's Nomination Committee, and outlined the candidates for the 6th BOS. Extensive discussions were made on this issue. The session deliberated and passed the following resolutions: Resolution Concerning the Composing of the 6th BOS of Shenzhen Development Bank Co., Ltd., Resolution Concerning the Cumulative Voting Rules of the Voting of Supervisors of the 6th BOS of Shenzhen Development Bank Co., Ltd., Resolution Concerning the Voting of External Supervisors of the 6th BOS of Shenzhen Development Bank Co., Ltd., and Resolution Concerning the Voting for Supervisors of Representatives of Shareholders of the 6th BOS of Shenzhen Development Bank, Co., Ltd.

## **B BOS hereby expresses its independent opinion on the following matters:**

### **1 Legal compliance on corporate operations**

BOS has conducted supervision of the Bank in accordance with the law. Members of the BOS have attended all Board of Directors meetings and a portion of the committee meetings held under the Board of Directors. The BOS concludes that the Bank's decision-making processes have been in full compliance with the law, and there have been no instances of directors or senior executives breaching laws, policies or corporate articles, or displaying conduct that is detrimental to the interest of the Bank when carrying out his/her responsibilities.

### **2 Inspection of the Bank's financial status**

The BOS has faithfully executed the responsibility of inspecting the Bank's corporate financial status. BOS members have attended the relevant Board of Directors meetings and have been briefed by the CFO and auditors. The BOS concludes that the financial reports truly reflect the Bank's financial status and operational performance.

### **3 Fund raising, purchase and sale of assets**

During the reported year, the Bank's "SDB SFC1" share warrants were exercised, raising RMB3,900 million Yuan of capital. All funds raised were used to supplement the company's capital. There was no major purchase or sale of assets.

### **4 Related party transactions**

During the reported year, all related party transactions were conducted under normal business processes and policies. There is no instance of any actions that might harm the interests of the Bank or its shareholders.

# Corporate Governance

## A Status

The Bank abides by the Company Law, the Securities Law, the Commercial Banking Law and all other relevant rules and regulations, as well as by the regulatory requirements stipulated by China Securities Regulatory Commission (CSRC) and China Banking Regulatory Commission (CBRC). The Bank continues to improve corporate governance and enhance the importance of the Board's decisions. In the reported year, the Bank has completed its share reform plan and further revised its Articles of Association as well as a number of administrative guides, such as the detailed working guide for special committees under the Board of Directors and the meeting rules of the Board of Supervisors, thereby improving its corporate administration structure through the development of specific corporate governance activities.

### 1 Shareholders' and General Meetings

In accordance with its Articles of Association, various laws protecting public shareholders' rights and various related requirements, the Bank has ensured that all shareholders are treated equally and are able to fully exercise their rights. In the reported year, the Bank has held five Shareholders' Meetings – one annual Shareholders' Meeting and four Extraordinary General Meetings. All meetings were convened and conducted pursuant to Company Law, the Guidelines on Convening General Meetings of Listed Companies, other relevant laws and regulations, and the Articles of Association of the Bank. The Bank's law firm has also provided its legal opinions.

### 2 Directors and Board of Directors

In the reported year, all directors of the Bank have honored their public promises and fulfilled their duties with diligence. They have actively participated in all meetings, fully expressed their opinions, and carried out their various duties with care.

The Bank's Board of Directors is directly responsible to the General Meeting. The Board holds meetings according to due legal procedures and exercises its rights in strict adherence to the relevant laws, regulations and incorporation articles. All meetings are held in accordance with the rules of the Articles of Association and the Board of Directors Meeting Rules. The meeting materials are completely preserved. The special committees under the Board research specific key issues and exert an important influence on the Board's decision-making process.

In the reported year, the Bank's Board of Directors has completed its reelection process. In accordance with the Proposal for Number and Composition of the 7th Body of SDB (approved by the 3rd Extraordinary General Meeting of SDB), the 7th Body is composed of 15 Directors, including five independent directors, four executive directors, and six other directors. Because the Shenzhen Stock Exchange Corporate Administrative Department believed that Ms Zhou Jun was not qualified for the post of independent director, the Bank did not put Ms Zhou Jun forward as candidate for independent director of 7th Body to the 3rd Extraordinary General Meeting of SDB. Consequently the new Board presently consists of 14 Directors, that is, four independent directors, four executive directors, and six other directors. The bank will search quickly for a qualified candidate for the post of independent director and submit the proposal to the general meeting in a timely manner.

There was no violation of corporate governance regulation in 2007.

### 3 Supervisors and Board of Supervisors

The Bank's Supervisors have fulfilled their duties with diligence. The Board of Supervisors has focused on maintaining communication with the Board of Directors and senior management. By organizing and attending various Supervisors meetings, meetings for the special committees under the Board of Supervisors, and attending various Board of Directors meetings and related meetings for the special committees under the Board of Directors, the Bank's Supervisors have retained a firm understanding of the Bank's business management conditions. In accordance with the Company Law and the Bank's Articles of Association, the Supervisors have effectively monitored the Bank's financial condition and ensured the fulfillment of senior management duties, thereby protecting the legal rights of the Bank and its shareholders.

In the reported year, the Bank's Board of Supervisors has completed its reelection. The new Board consists of seven supervisors: two external supervisors, two shareholders' representatives, and three staff supervisors.

### 4 Information Disclosure

In the reported year, the Bank has disclosed information in a truthful, accurate, complete and timely manner in strict conformity with the relevant laws, rules, regulations and Articles of Association. Furthermore, the information disclosure required of listed companies has been fulfilled faithfully. In the reported year, the Bank has further strengthened its management of investor relations. It has placed great import on all correspondences, telephone calls, personal visits and consultations with shareholders and investors, and has ensured that all shareholders have equal access to material information.

### 5 Specific Corporate Governance Activities during the Reported Year

The Bank has actively organized its company-wide corporate governance self-appraisal mechanism in line with both the spirit and letter of various corporate governance regulations, such as the CSRC "Notice Regarding Issues on Development and Enhancement of Specific Corporate Governance Activities" (No. 28 [2007] Zhengjian Gongsizi), Shenzhen CSRC "Notice Regarding Issues on Development and Enhancement of Specific Corporate Governance Activities for Listed Companies in Shenzhen Jurisdiction" (No 14 [2007] Shenzhengju Gongsizi), and Shenzhen Stock Exchange "Notice Regarding the Enhancement of Specific Corporate Governance Activities". On July 28, 2007, the Bank published a "Corporate Governance Self-Appraisal and Reform Report" in China Securities News and the Securities Times, as well as on the China Information website (www.cninfo.com.cn). The Bank also published on its corporate website a hotline number and email address in order to facilitate comments and suggestions from investors and the public regarding the Bank's corporate governance performance and reform plans.



On 20 September 2007, the Shenzhen CSRC made a spot-check on the Bank's corporate governance activities, and on 12 December 2007 issued the Bank with its "Authority Opinion Regarding Corporate Governance at Shenzhen Development Bank Co., Ltd.". In its letter, Shenzhen CSRC pointed out the following issues: (1) The Bank's management of information disclosure was deemed imperfect. Portions of the Company's "Guide on Information Disclosure Management" are not clear, and information disclosure management could be further enhanced. (2) Flaws were found in the construction of internal regulations, and the institution of accountability measures was deemed imperfect. The Company had failed to set out specific regulations on directors, supervisors and senior management personnel who hold their own company's shares or who transfer such shares. In one instance, an individual supervisor purchased the Bank's shares 10 days prior to the announcement of a performance forecast. (3) Related-transaction directors had failed to refrain from voting in some directors' meetings.

The Bank takes a serious attitude towards the corporate governance issues discovered through self-appraisal and by the authorities, as well as from suggestions and comments by the public. Active measures have been undertaken to address these issues.

Corporate reform over issues discovered by self-appraisal is as follows: (1) the number of independent directors in the 6th Board of Directors has fulfilled the authorities' requirements; (2) regulations on information disclosure management have been modified and improved; (3) numerous measures are now in place with regard to information disclosure management, and information is disclosed in strict adherence to the content and format required by laws, regulations and the Articles of Association. The information disclosure requirements of a listed company have been fulfilled in practice; (4) the regulation on investor relations management proposed by the Bank has already been passed at the 6th Board of Directors meeting.

Corporate reform over issues discovered by the regulators is as follows: (1) in accordance with the opinion of the Shenzhen CSRC, the Bank has modified its "Regulation on Information Disclosure Management" with additions and clarifications to various clauses. The modified "Regulation on Information Disclosure Management" was passed by the 37th meeting of the 6th Board of Directors on 30 October 2007. The Bank has implemented various measures to strengthen its information disclosure management and to improve its information disclosure skills. (2) In accordance with various regulations such as the CSRC Management Rules on Directors, Supervisors and Senior Management Personnel Holding Shares or Transferring Shares of a Listed Company and the SSE Business Guidance on Directors, Supervisors and Senior Management Personnel Holding Shares or Transferring Shares of Listed Company, the Bank has proposed the "Shenzhen Development Bank Co., Ltd. Measure on Management of Directors, Supervisors and Senior Management Personnel Who Hold SDB Shares or Transfer Such Shares", which was passed at the 37th meeting of the 6th Board of Directors on 30 October 2007. The Bank holds a serious view on the instance of the individual supervisor who traded on the Bank's shares. On the basis of investigations undertaken, the Board of Supervisors has admonished the supervisor concerned, who has in turn accepted and reflected on the criticism and promised that the incident will not reoccur. (3) Regarding the issue of related-transactions directors failing to refrain from voting in some directors' meetings, the Bank shall be placing measures to prevent the reoccurrence of such incidents.

Reforms undertaken with respect to public opinion: regarding the suggestion to enhance the feedback function of the corporate website, the Bank has placed a new link to the existing feedback function at a more eye-catching area on the website, and has published further details of specific contact persons and contact methods.

## B Duty Performances by Independent Directors

Within the reported year, all independent directors performed their duties and participated in important decision-making processes at the Bank by expressing independent opinions on major events. They defended the overall interests of the Bank, in particular the legitimate rights of small shareholders, in accordance with the relevant laws, rules and regulations.

### Meeting Attendance Record for the Bank's Independent Directors of the 6th board

NAME OF INDEPENDENT DIRECTOR	No. of scheduled attendances	Actual attendances	Attendances by agents	Absences	Objections to proposals
Yuan Chengdi	16	16	0	0	Objection votes raised for three proposals ("Proposal Regarding the Election of the Independent Directors for the 7th Board of Directors for Shenzhen Development Bank Co., Ltd.", "Proposal Regarding the Election of the Executive Directors for the 7th Board of Directors for Shenzhen Development Bank Co., Ltd.", "Proposal Regarding the Election of the Other Directors for the 7th Board of Directors for Shenzhen Development Bank Co., Ltd.") passed by the 38th Board Meeting by the 6th Board of Directors.
Zheng Xueding	16	16	0	0	Nil
Hao Zhujiang	16	16	0	0	Nil
Michael O'Hanlon	16	15	0	1	Nil
Robert T. Barnum	3	3	0	0	Nil
Sun Changji	0	0	0	0	Nil

Note: Mr Sun Changji's qualification status as an independent director is awaiting approval by the CBRC.

## C The Separation of the Bank from its Largest Shareholder in areas of business, personnel, assets, organization and finance

The Bank is completely separate from its controlling shareholder in areas of business, structure, personnel, finance and assets. The Bank is equipped to operate independently with its own independent business, complete assets, independent operations, and is accountable for its own profitability. From a business perspective, the Bank has its own production, management and sales systems, independent accounting, and bears its liabilities and risks independently. From an institutional perspective, the Bank is structurally organized to be completely independent of its controlling shareholders. There are no examples of the Bank and its controlling shareholders jointly sharing office space, nor is there any superior-subordinate relationship between the Bank and its controlling shareholders. In terms of personnel, the Bank and its controlling shareholders are independent in areas such as labor, human resources and wage management. All business management personnel obtain their wages from the Bank and do not hold positions at controlling general institutions. From a finance perspective, the Bank has an independent accounts department with independent financial management regulations and accounting systems in place, such that both accounting and tax payment functions are standalone. The Bank's assets are well-defined. The Bank is also independent in its business operations and industrial proprietary rights, trademark registration rights, and its ownership of intangible assets such as non-proprietary technologies.

## D Evaluation and Incentivization of Senior Management

During the reported year, the Bank's General Meeting and Directors have further improved compensation management measures for the compensation of senior management personnel. The Board of Directors and the Compensation and Performance Appraisal Committee under the Board have evaluated the performances of senior managers based on the execution of the annual work plan and the achievement of major operating results. The bonuses paid to senior management are based on these performance appraisal results. The Bank is at present gradually refining the performance appraisal and incentive systems for senior management staff.

# Internal Control Self-Appraisal Report

According to the requirements of the Law of the People's Republic of China on Commercial Banks, the Guidelines for Internal Control of Commercial Banks, and the Shenzhen Stock Exchange Guidelines upon Internal Controls of Listed Companies, the Bank has formulated a set of risk prevention rules, procedures and mechanisms with the aim of risk prevention and prudent operation. A competent, effective and independent internal control system has been built up, enabling the Bank to continue to develop in a steady and stable manner whilst effectively manage and control financial risk.

## A Overview

The Bank's management further improved internal controls in 2007, under the guidance of the 6th Board of Directors and its specific committees. The management believes that there are no material weaknesses in the Bank's internal controls. Nonetheless, the Bank will continue to improve its internal controls in areas such as accounting, branch operations and information technology.

## B Material Internal Control Activities

### 1 Subsidiary

According to the related resolution of the 12th Meeting of the 6th Session of the Board, the Bank has been resolving its relationship with its subsidiary Yuansheng Company. Upon the close of this settlement, the registration will be cancelled or its ownership will be transferred in accordance with legal procedures.

### 2 Related Party Transactions

The Bank has established and executed the Shenzhen Development Bank Related Party Transaction Policy, in which the review authorities and procedures are stipulated. Any significant RPTs must be reported to the Audit Committee and Board of Directors for approval. The CCO or CEO has the authority to approve RPTs under certain size, but must regularly report such transactions to the Audit Committee and Board of Directors. In 2007 the total number of RPTs, maximum amount for a single RPT, standards and processes of approving, reviewing and filing RPTs of SDB all strictly followed the Policy and also were in compliance with regulatory stipulations.

### 3 Guarantee

Guarantee business is an ordinary banking business approved by the PBoC and CBRC. The Bank has ensured proper risk management of this business by strictly following the relevant operational processes and approval procedures. Risks in the guarantee business are effectively controlled.

Except for the opening of guarantee letters, the Bank did not have any significant guarantee transactions in 2007 that were not approved by the Board of Directors.

### 4 Use of raised capital

In 2007, the Bank issued call warrants in accordance with the Proposal for Call Warrants Issuance of Shenzhen Development Bank Co., Ltd, which was approved at the 2007 1st Extraordinary General Meeting & Relevant General Meeting and by the China Securities Regulatory Commission. As of 28 December 2007, a total amount of RMB 3.9 billion Yuan has been raised, which has been used to supplement capital after deducting related expenses. Ernst & Young has provided the corresponding capital verification report (E&Y (2008) Yan #60438538\_H02).

### 5 Significant investments

In this reporting period the Bank did not conduct any material investment projects.

### 6 Information Release

The Bank formulated and executed *Administrative Rules for the Release of Information for Shenzhen Development Bank*, in which the scope and content of significant information is clearly defined. The chairman was designated as holding ultimate responsibility for information releases, with the Board of Directors' Office holding direct responsibility. Principles, areas of responsibilities, procedures and other matters related to information release have been clarified.

In 2007 the Bank released all public information in a timely, accurate, authentic and integrated manner in strict accordance with the rules.

## 7 Controls on accounting

- i** Vertical management structures were established in the finance and accounting areas: a financial officer has been assigned to each branch and an accounting manager has been assigned to each outlet.
- ii** The Bank has started to re-build some accounting processes and operational procedures according to the Centralization Plan for accounting. A centralized management model was adopted for accounting in order to standardize accounting operations, strengthen accounting quality and improve the internal control supervision and examination mechanisms.
- iii** The Data Management Center was established in order to enhance the ability to analyse financial data. The development and testing of an SAP managerial accounting system has commenced.
- iv** A Purchasing Department has been established in order to centralize negotiations of the purchase of materials and equipment. This has lowered purchasing costs, improved efficiency, and ensured product quality and safety.
- v** A Remittance Review Process was adopted for all businesses, to ensure the integration and validity of legal documentation prior to remittance.
- vi** The Bank instituted monthly reporting of operational risks related to accounting, analyzing the cause and distribution of operational risks in an effort to prevent and control those risks. In 2007, the bank successfully prevented 13 cases of operational failure which could have caused a potential loss of RMB57.44 million Yuan. There was no material loss in 2007.

## 8 Controls on Credit Risk

The Bank built up a vertical credit risk management structure. SDB improved its overall risk management system with reference to international best practices.

The Bank established a Credit Portfolio Management Committee. Regular meetings were convened to study and decide upon important credit risk management policies. Based on the principle of "separating credit administration from credit review", independent credit approval centers were established in both the head office and branches to enhance portfolio management and the monitoring of important loans.

Business control lines were set up to target important loan categories such as government-related loans, medium and long-term loans, real estate loans and so on. The Bank strengthened its credit assignment on Related Legal Entities. Portfolio indicators for important loans were monitored on a monthly basis to control the total origination volumes. A post-loan monitoring mechanism was established.

Meanwhile, in an effort to achieve asset quality targets, the Bank conducted a detailed performance evaluation on business units and key personnel with respect to asset quality.

A professional NPL team was set up in 2005 to integrate resources, conduct intensive workouts and boost the pace of recoveries.

## 9 Controls on Treasury business

The Bank established procedures to improve the monitoring and control of liquidity risk. In 2007, with the Bank facing several challenges including macroeconomic measures introduced by the government, RMB appreciation and developments in security markets, SDB improved the monitoring of net cash flow, liquidity indicators, the liquidity gap and cash reserves. In addition, management conducted stress tests of liquidity in an effort to prevent liquidity risk. The Bank refined its Asset Liability Management System in order to improve the quality of its dynamic and scenario analytics and other management tools.

With respect to market risk and portfolio management, the Bank has no subprime asset losses. The Bank took the initiative to dispose of most of these assets before their market values fell, and thereby avoided loss of principal. The Bank has focused on achieving the correct balance between risk and the rapid development of new products. In the RMB trading business, the Bank controls the average duration and overnight credit limits. In the foreign exchange and broker businesses, the Bank has reduced its overnight liquidity risk exposure.



## 10 Controls on IT

According to its IT management policies, the Bank has developed a strategic IT plan, upgraded IT service management, performed a CMMI information security rating, and reviewed policies and procedures with a focus on improving operational effectiveness.

- i The Bank has clarified areas of responsibility among IT staff.
- ii Operational systems and databases were selected and managed to guarantee their feasibility and application. Differentiated user control authorizations were set to ensure the security of system.
- iii The data back up mechanism, regular maintenance schedules, record keeping for equipment and system failures, and procedures for the disposal of hardware were established or refined. Standards for the maintenance of electronic equipment to ensure their sound operation were also provided.
- iv Mainframe operations and network administration were enhanced to ensure the safe and smooth operations.
- v The emergency plan for information systems was refined.

## 11 Internal Audit

### Internal Audit

A vertical management structure has been put in place, meaning that Internal Audit Department (IAD) directly reports to Audit Committee, in compliance with the *Internal Audit Guidance for Banking Institutions*. The IAD completed all audit projects required by Audit Committee in 2007, and the audit findings and issues have been reported to Audit Committee and BoS. The IAD is responsible for following up on the audit findings and issues in a timely manner.

In 2007, some of the audit projects included: assessment/audit of the IC quality of the Bank; compliance risks; RPT management across the bank; full follow-up audit projects on the eight branches and sub-branches; special audit projects in the areas of Retail Banking, Finance & Accounting, Corporate Banking, Trade Finance, and IT; spot audits including seals and authenticity code management; authorization cards (counter staff cards); blank vouchers; cash box; reconciliation; job rotation and environmental security. The IAD also conducted a survey on ethics and responsibility. Audit projects in 2007 covered 100% of the branches and 49.13% of total outlets.

To meet the IAD's workload, the Bank recruited skilled financial professionals from different banks. By the end of 2007, there were 78 employees in the IAD. 14 IAD staff now have CPA/CIA/CISA certifications, accounting for 18% of total staff. Staff with a bachelor's or a higher degree account for 91% of total staff. The overall quality of the IAD has improved remarkably.

### Compliance Management

The Bank has improved its compliance management structure, established compliance departments at the branches across the Bank, clarified the responsibilities of individuals and departments with respect to compliance, and created a compliance performance review process. The key business lines have established compliance committees to undertake compliance work. The Bank has revised its "Code of Conduct" and organized a set of related training activities in which almost 100% of the Bank has participated. SDB has conducted anti-money-laundering (AML) special investigations, improved AML reporting quality, and completed AML systems development in order to improve the quality and effectiveness of its AML reporting.

### Established "whistle-blowing" process for the violation of rules and regulations

The Bank has further improved its mechanisms for facilitating "whistle-blowing" through its "*Whistle-blowing Management Manuals*" and "*Implementation of Whistle-blowing Management*" policies. This will improve employees' ability to warn the Bank of any violation in ethics, allowing the Bank to take action to ensure the safety of its assets and reputation.

During the reported year, the Bank has a good record of compliance with the CBRC and Shenzhen Stock Exchange.

## C Conclusion

In summary, the Bank has placed significant emphasis on the building of internal control systems as its business scale grows. The internal control system covers the Bank's business processes and operations, as well as the management of all departments and branches of the Bank. Although some areas require further improvement, both the Board of Directors and the management team are aware of these issues and have scheduled improvement measures. Overall, the internal control system of the Bank is sound and effective and the internal control mechanism functions well. No material internal control deficiencies exist.

## Assessment Report on Internal Control

### E&Y Hua Ming (2008) Special No. 60438538 H04

The board of directors of Shenzhen Development,

We audited the Self-appraisal Report on Internal Control of Shenzhen Development Bank prepared by the senior management of Shenzhen Development Bank ("your Bank") under your delegation, with respect to establishment and implementation of internal control related to financial statement at December 31 2007 of your Bank as stated in the Report. Your Bank made self-appraisal on the availability of establishment and implementation of internal control related to financial statement at December 31 2007 in accordance with the relevant rules on normative standard set out in the MOF Internal Accounting Control Regulation – Basic Regulation (Pilot Version). It is responsibility of senior management of your Bank to establish an integral and reasonable internal control system and maintain its availability, ensure the availability of establishment and implementation of internal control related to financial statement as stated in the said Self-appraisal Report, and also guarantee the authenticity and integrity of the said Self-appraisal Report.

Our audit is based on the Guidance Opinion about Internal Control Audit issued by the China Institute of Certified Public Accountants. In the process of auditing, we implemented the procedures including inquiry, test, assessment on establishment and implementation of internal control, and other procedures as we deemed necessary. We believe that our audit provided reasonable basis for issuing opinion.

Subject to inherent limit of internal control, there is possibility of mistakes incurred by errors or frauds but not observed. Besides, there is certain risk of deducing the future availability of internal control on the basis of current assessment result, because the change of environment may lead to inappropriate internal control, or decline in compliance with internal policies and procedures. Therefore, the valid internal control in this term may not guarantee the validity in the future.

We are of the view that the internal control related to financial statement of your Bank as stated in the said Self-appraisal Report is in line with the relevant rules on normative standard set out in the MOF Internal Accounting Control Regulation – Basic Regulation (Pilot Version) in all major aspects.

The Report is just for the purpose of filing with relevant departments of the China Securities Regulatory Commission and the Shenzhen Stock Exchange. Any aftereffect resulted from misuse will be irrelevant with the CPA executing the business and the accounting firm.

#### Ernest & Young Hua Ming



People's Republic of China Beijing,  
19 March 2008

#### CICPA



張小東

Zhang Xiaodong

#### CICPA



許旭明

Steven Xu

# Changes in Share Capital and Shareholders

## A Changes in Share Capital

### 1 Table of changes in shares

	1 January 2007		Movement during the year					31 December 2007	
	Quantity	%	Share issue	Share splits	Reserve transfer	Others	Subtotal	Quantity	%
<i>Unit: share</i>									
<b>Restricted shares</b>	536,560,524	27.58	-	10,034	-	16,038	26,072	536,586,596	23.40
<b>i</b> Held by state owned entities	1,717,146	0.09	-	-	-	2,909,088	2,909,088	4,626,234	0.20
<b>ii</b> Held by other domestic entities	186,740,073	9.60	-	10,034	-	-2,893,050	-2,883,016	183,857,057	8.02
Including: Held by domestic non-state owned entities	186,639,733	9.59	-	-	-	-3,325,752	-3,325,752	183,313,981	7.99
Held by domestic individuals	100,340	0.0052	-	10,034	-	432,702	442,736	543,076	0.02
<b>iii</b> Held by foreign entities	348,103,305	17.89	-	-	-	-	-	348,103,305	15.18
<b>Unrestricted shares</b>	1,409,261,625	72.42	-	140,926,162	-	206,632,762	347,558,924	1,756,820,549	76.60
<b>i</b> Ordinary shares in RMB	1,409,261,625	72.42	-	140,926,162	-	206,632,762	347,558,924	1,756,820,549	76.60
<b>Total</b>	1,945,822,149	100.00		140,936,196		206,648,800	347,584,996	2,293,407,145	100.00

Notes: 1. In the reported year, the 416,664 restricted shares held by Shenzhen Hongtu Co., Ltd. were judicially transferred to a natural person.

2. In the reported year, there were 206,648,800 "SFC1" warrants exercised, adding 206,648,800 shares to the company.

### 2 Table of changes in restricted shares

SHAREHOLDER	1 January 2007	Unrestricted shares released during the year	Restricted shares added during the year	31 December 2007	Reason for restriction	Date of release
<i>Unit: share</i>						
Newbridge Asia AIV III, L.P.	348,103,305	-	-	348,103,305	Share reform	20 June 2008: 104,337,917 20 June 2009: 104,337,917 20 June 2010: 139,427,471
China National Electronics Import and Export Shenzhen Company	62,246,616	-	-	62,246,616	Share reform	20 June 2008
Haitong Securities Co., Ltd.	33,924,466	-	-	33,924,466	Share reform	20 June 2008
Shenzhen Hongye Science and Technology Industries Co., Ltd.	25,137,627	-	-	25,137,627	Share reform	20 June 2008
Labor Union Working Committee of Agriculture Bank of China Shenzhen Branch	15,567,288	-	-	15,567,288	Share reform	20 June 2008
Labor Union of China Construction Bank Shenzhen Branch	7,120,866	-	-	7,120,866	Share reform	20 June 2008
Labor Union Working Committee of PICC Property and Casualty Co., Ltd Shenzhen Branch	6,601,486	-	-	6,601,486	Share reform	20 June 2008
Shenzhen Children Welfare Foundation	4,513,626	-	-	4,513,626	Share reform	20 June 2008
Labour Union Working Committee of China National Electronics Import and Export Shenzhen Company	4,458,468	-	-	4,458,468	Share reform	20 June 2008
China Orient Asset Management Corporation	-		2,909,088	2,909,088	Share reform	20 June 2008
Shenzhen Science & Technology Development Foundation	2,647,265		-	2,647,265	Share reform	20 June 2008
China HuaNeng Finance Co., LTD	2,351,142		-	2,351,142	Share reform	20 June 2008
Shenzhen Vanke Financial Consultants Co., Ltd.	2,016,000		-	2,016,000	Share reform	20 June 2008
China North Industries Company	1,717,146		-	1,717,146	Share reform	20 June 2008
Shenzhen Kaili Group Corporation	1,471,992		-	1,471,992	Share reform	20 June 2008
Bank of Communications Shenzhen Branch	1,363,632		-	1,363,632	Share reform	20 June 2008
Shenzhen Zhongguang Haiqiao Trade and Development Co, Ltd.	-		1,345,019	1,345,019	Share reform	20 June 2008

## SHAREHOLDER

<i>Unit: share</i>	1 January 2007	Unrestricted shares released during the year	Restricted shares added during the year	31 December 2007	Reason for restriction	Date of release
Shenzhen Futian District Public Health						
Service Center	1,188,780	-	-	1,188,780	Share reform	20 June 2008
Shenzhen Green Foundation	1,149,235	-	-	1,149,235	Share reform	20 June 2008
Shenzhen Xincheng Investment Co., Ltd.	974,022	-	-	974,022	Share reform	20 June 2008
Zhenhua Group Finance Co., Ltd	939,555	-	-	939,555	Share reform	20 June 2008
Futian Investment Development Company						
of Shenzhen	895,104	-	-	895,104	Share reform	20 June 2008
Shenzhen Youth Development Foundation	745,920	-	-	745,920	Share reform	20 June 2008
Shekou Neighborhood Office of Nanshan						
District, Shenzhen	716,082	-	-	716,082	Share reform	20 June 2008
Shaoguan Jingfeng Trade Co, Ltd.	-	-	691,339	691,339	Share reform	20 June 2008
China Construction Bank, Shenzhen Branch	671,328	-	-	671,328	Share reform	20 June 2008
Shenzhen Shekou Dongdi Fishery Co., Ltd.	579,684	-	-	579,684	Share reform	20 June 2008
Shenzhen Hongtai Dresses Co., Ltd.	559,434	-	-	559,434	Share reform	20 June 2008
Shenzhen Overseas Chinese Welfare Foundation	513,618	-	-	513,618	Share reform	20 June 2008
Hongling North Road Office, Agriculture						
Bank of China Shenzhen Branch	418,869	-	-	418,869	Share reform	20 June 2008
Wang Lili	416,664	-	-	416,664	Share reform	20 June 2008
Shenzhen Passenger Transport Service Co., Ltd.	290,904	-	-	290,904	Share reform	20 June 2008
Shenzhen Youhe Investment & Development Co., Ltd.	290,904	-	-	290,904	Share reform	20 June 2008
Shenzhen Shekou Nanshui Industries Co., Ltd.	290,904	-	-	290,904	Share reform	20 June 2008
Nanshui Community Resident Committee of						
Shekou Neighborhood, Nanshan District, Shenzhen	290,904	-	-	290,904	Share reform	20 June 2008
China Merchants Bank	269,199	-	-	269,199	Share reform	20 June 2008
Shenzhen Xia Mei Lin Industrial Co, Ltd.	223,776	-	-	223,776	Share reform	20 June 2008
Shenzhen SAST Group Company	203,628	-	-	203,628	Share reform	20 June 2008
Shenzhen Jinlong Industrial Development Co., Ltd.	145,446	-	-	145,446	Share reform	20 June 2008
Shenzhen Chemical Dyeing Industries						
Development Co., Ltd.	144,540	-	-	144,540	Share reform	20 June 2008
Shenzhen Xin'an Shopping Mall	71,325	-	-	71,325	Share reform	20 June 2008
Shenzhen Sha Jing Tou Cooperation Company	58,179	-	-	58,179	Share reform	20 June 2008
Shenzhen Shangsha Industries Co., Ltd.	54,545	-	-	54,545	Share reform	20 June 2008
Shenzhen Caopu Dushu Industries Cooperation						
Company	42,954	-	-	42,954	Share reform	20 June 2008
Shenzhen SDG Communications Development						
Company	31,464	-	-	31,464	Share reform	20 June 2008
Shenzhen Kaihong Industrial Co., Ltd.	29,088	-	-	29,088	Share reform	20 June 2008
Shenzhen Futian Industrial Development Co., Ltd.	28,638	-	-	28,638	Share reform	20 June 2008
Shenzhen Financial Leasing Co., Ltd.	21,276	-	-	21,276	Share reform	20 June 2008
Shenzhen Tourism Association	8,487	-	-	8,487	Share reform	20 June 2008
Shenzhen Futian District Agriculture						
Development Service Company Yannan Agriculture Machine Trading	3,492	-	-	3,492	Share reform	20 June 2008
Shenzhen Stated-owned Dutyfree Commodity						
(Group) Co., Ltd.	3,492	-	-	3,492	Share reform	20 June 2008
Shenzhen Beitou Industrial Co., Ltd.	1,197	-	-	1,197	Share reform	20 June 2008
Shenzhen Nanshan Liyuan Industrial Co., Ltd.	1,176	-	-	1,176	Share reform	20 June 2008



SHAREHOLDER	1 January 2007	Unrestricted shares released during the year	Restricted shares added during the year	31 December 2007	Reason for restriction	Date of release
Cai Zhenxiang	58,762	-	14,495	73,257	Held by Directors, Supervisors, and Senior Management	NA
Hao Jianping	37,500	-	9,250	46,750	Held by Directors, Supervisors, and Senior Management	NA
Wang Kuizhi	4,078	-	2,205	6,283	Held by Directors, Supervisors, and Senior Management	NA
Hu Yuefei	-	-	99	99	Held by Directors, Supervisors, and Senior Management	NA
Jin Shiru	-	-	23	23	Held by Directors, Supervisors, and Senior Management	NA
<b>Total</b>	531,615,078	-	4,971,518	536,586,596		

## B Securities issuance and listing information

### 1 Securities issued by the Bank in the three years prior to the end of the reported year

In accordance with the Proposal for Warrants Issue of Shenzhen Development Bank Co., Ltd reviewed and approved by the 2007 1st Extraordinary Shareholders' Meeting & Relevant Shareholders' Meeting and approved by the China Securities Regulatory Commission, the Bank issued free Bermuda warrants at a ratio of 10:1 (based on the total share capital of 2,086,758,346 shares after the share reform), i.e. 208,675,834 warrants with a duration of six months to all shareholders who were registered on the equity registration day for warrant issuance (25 June 2007); and issued free Bermuda warrants at the ratio of 10:0.5, i.e. 104,337,917 warrants with a duration of 12 months to all shareholders who were registered on the equity registration day for warrant issuance (25 June 2007). A total of 313,013,751 warrants were issued. For the duration of the warrants, each warrant enabled the holder to prescribe one share, newly issued by the Bank, at the price of RMB19.00 Yuan.

The warrants were listed on the Shenzhen Stock Exchange on 29 June 2007. The warrants with the duration of six months (29 June 2007 to 28 December 2007) are entitled as "SFC 1" with the trading code "031003"; the warrants with the duration of 12 months (29 June 2007 to 27 June 2008) are entitled as "SFC 2" with the trading code "031004".

### 2 Changes in outstanding shares and the shareholding structure of the Bank

On 8 June 2007, the 2007 1st Extraordinary General Meeting and Relevant Shareholders' Meeting reviewed and approved the Proposal for Share Reform of Shenzhen Development Bank Co. On the basis of the audited 2006 Annual Report, and based on the figure of 1,409,361,965 tradable shares, the Bank offered designated share dividends from its undistributed profits to all tradable shareholders listed on the registration day. Every tradable shareholder got one share per 10 shares held. The share amount of the Company was increased from the 1,945,822,149 shares at the start of reported year to 2,086,758,345 shares.

Up to the end of reported year, 206,648,800 "SFC 1" warrants were exercised, accounting for 99.03% of the outstanding warrants. The 2,027,034 unexercised "SFC 1" warrants have been cancelled. After the exercise of the first block of warrants, the share capital of the Bank increased from 2,086,758,345 shares before the exercise to the 2,293,407,145 shares after the exercise.

The owners' equity of the Company rose by RMB6,400 million Yuan to RMB1,300 million Yuan, an increase of 97% compared with the start of the year.

Changes in the shareholding structure are referred to in the Table of Changes in Shares.

3 The Bank has no internal staff shares.

## C Shareholder background information

### 1 Number of shareholders and shareholding position

Number of shareholders: 250,426

#### Top 10 shareholders

##### SHAREHOLDER

<i>Unit: share</i>	Nature of shareholder	Shareholding (%)	Shares held	Changes	Restricted shares held	Shares collateralized or frozen
Newbridge Asia AIV III, L.P.	Foreign	16.70	382,913,635	34,810,330	348,103,305	-
China National Electronics Import and Export Shenzhen Company	Others	2.99	68,471,278	6,224,662	62,246,616	-
Rongtong New Bluechip Securities Investment Fund	Others	1.93	44,212,787	42,912,787	-	-
Haitong Securities Co., Ltd.	Others	1.63	37,316,913	3,392,447	33,924,466	-
China Everbright Bank Co., Ltd.–Everbright Baode Quantitative Core Securities Investment Fund	Others	1.40	32,187,713	32,187,713	-	-
ICBC–Guangfa Policy Preferred Mixed Securities Investment Fund	Others	1.37	31,398,988	11,289,282	-	-
SPDB–Guangfa Growth Stock Securities Investment Fund	Others	1.33	30,601,522	27,383,253	-	-
CCB–Boshi Theme Industry Stock Securities Investment Fund	Others	1.26	28,939,826	19,540,071	-	-
Shenzhen Hongye Science and Technology Industries Co., Ltd.	Others	1.21	27,651,390	2,513,763	25,137,627	25,000,000
ICBC–Guangfa Growth Mixed Securities Investment Fund	Others	1.19	27,224,723	27,224,723	-	-

#### Top 10 unrestricted shareholders

##### SHAREHOLDER

<i>Unit: share</i>	Unrestricted shares held	Share nature
Rongtong New Bluechip Securities Investment Fund	44,212,787	RMB ordinary shares
China Everbright Bank Co., Ltd.–Everbright Baode Quantitative Core Securities Investment Fund	32,187,713	RMB ordinary shares
ICBC–Guangfa Policy Preferred Mixed Securities Investment Fund	31,398,988	RMB ordinary shares
SPDB–Guangfa Growth Stock Securities Investment Fund	30,601,522	RMB ordinary shares
CCB–Boshi Theme Industry Stock Securities Investment Fund	28,939,826	RMB ordinary shares
ICBC–Guangfa Growth Mixed Securities Investment Fund	27,224,723	RMB ordinary shares
China Pacific Insurance – Traditional– Common Insurance Product	26,551,545	RMB ordinary shares
ICBC–Jingshun Great Wall Selected Bluechip Stock Securities Investment Fund	26,132,208	RMB ordinary shares
ICBC–Rongtong Vanguard Stock Securities Investment Fund	21,780,549	RMB ordinary shares
Boshi Value Growth Securities Investment Fund	19,999,630	RMB ordinary shares
The relationship of the shareholders above and the explanation of any concerted action		The Bank is not aware of their relationship or concerted action.

## 2. Position of the top 10 restricted shareholders with the restricted condition

NO.	Restricted shareholders	Amount of restricted shares	Listing date	Number of shares to be listed	Restriction condition
1	Newbridge Asia AIV III, L.P.	348,103,305	20 June 2008 20 June 2009 20 June 2010	104,337,917 104,337,917 139,427,471	Promises no transferring or trading the holding of non-tradable shares within 12 months since the day acquiring trading right. After the expiration of above commitment term, the previous non-tradable shares traded through the stock exchange shall not be over 5% of total shares in 12 months, not over 10% in 24 months.
2	China National Electronics Import and Export Shenzhen Company	62,246,616	20 June 2008	62,246,616	Relevant legal commitment
3	Haitong Securities Co., Ltd.	33,924,466	20 June 2008	33,924,466	Relevant legal commitment
4	Shenzhen Hongye Science and Technology Industries Co., Ltd.	25,137,627	20 June 2008	25,137,627	Relevant legal commitment
5	Labor Union Working Committee of Agriculture Bank of China Shenzhen Branch	15,567,288	20 June 2008	15,567,288	Relevant legal commitment
6	Labor Union of Construction Bank of China Shenzhen Branch	7,120,866	20 June 2008	7,120,866	Relevant legal commitment
7	Labor Union Working Committee of PICC Property and Casualty Co., Ltd Shenzhen Branch	6,601,486	20 June 2008	6,601,486	Relevant legal commitment
8	Shenzhen Children Welfare Foundation	4,513,626	20 June 2008	4,513,626	Relevant legal commitment
9	Labor Union Working Committee of China National Electronics Import and Export Shenzhen Company.	4,458,468	20 June 2008	4,458,468	Relevant legal commitment
10	China Orient Asset Management Corporation	2,909,088	20 June 2008	2,909,088	Relevant legal commitment

### 3 Brief description of the Bank's largest shareholder: Newbridge Asia AIV III, L.P.

Newbridge Asia AIV III, L. P. was established on June 22, 2000 in Delaware, USA with a registered capital of US\$724 million. It focuses on strategic investment. All of the investment and operational decisions of the company are made by unlimited liability partners Newbridge Asia GenPar AIV III, L.P., while the investment and operational decisions of Newbridge Asia GenPar AIV III, L.P. are made by unlimited liability partners Tarrant Advisors, Inc. and Blum G.A., LLC (of which Blum G.A., LLC is managed by Blum Investment Partners, Inc.) Tarrant Advisors, Inc and Blum G.A., LLC are controlled by Mr David Bonderman, Mr James G. Coulter and Mr Richard C. Blum (all of whom are U.S. citizens).

The following three individuals are the eventual controlling parties of the company:

#### David Bonderman

Mr David Bonderman is the partner and co-founder of Texas Pacific Group. Before the establishment of Texas Pacific Group, Mr David Bonderman served as Chief Executive in RMBG Group (now Keystone) in Fort Worth, Texas. Before joining RMBG in 1983, Mr David Bonderman was a partner with Arnold & Porter, a law firm in Washington D.C.

Mr David Bonderman has served and is serving as a director on the boards of many listed and unlisted global corporations as well as non-profit organizations.

#### James G. Coulter

Mr James G. Coulter is the partner and co-founder of Texas Pacific Group. Before Texas Pacific Group was incorporated, Mr James G. Coulter served as vice president of Keystone from 1986 to 1992. From 1986 to 1988, Mr James G. Coulter was closely associated with SPO Partners, an investment firm specializing in stock market investment and private placement financing. Mr James G. Coulter was also the financial analyst for Lehman Brothers Kuhn Loeb. He graduated with honors from Dartmouth College and acquired MBA degree from Stanford Graduate School of Business.

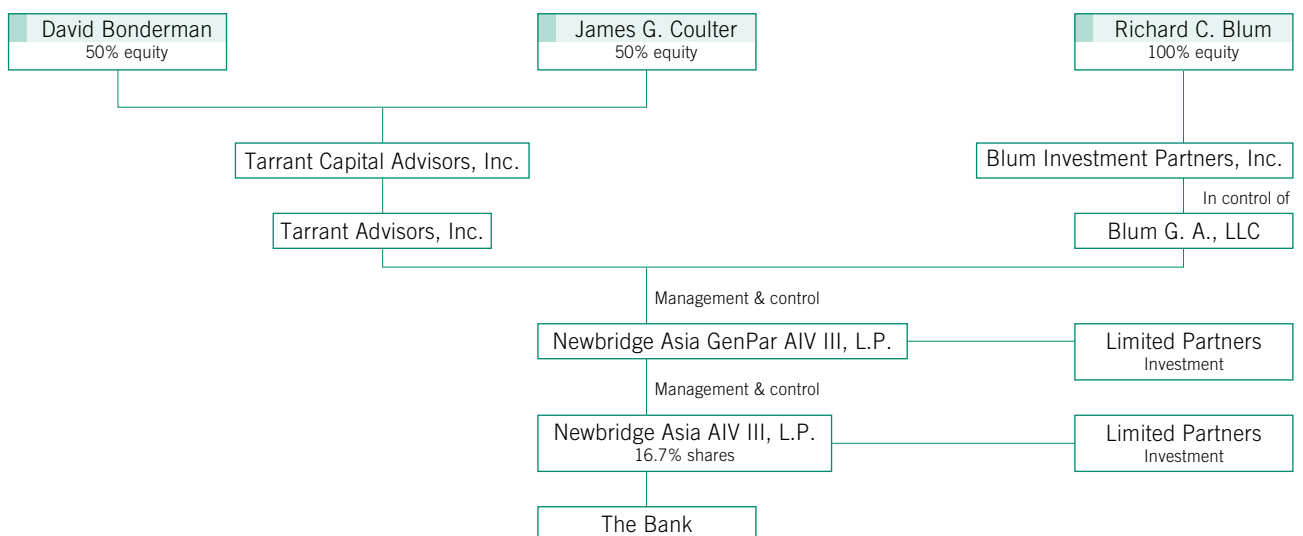
Mr James G. Coulter is now serving and has served as a director on the boards of many listed and unlisted global companies.

#### Richard C. Blum

Mr Richard C. Blum is chairman of Blum Capital Partners. He founded Blum Capital Partners in 1975. Mr Richard C. Blum started his career in Sutro in 1958 and eventually became the youngest partner in the company's 130-year history. In 1975, Mr Blum left his position as a director, a major shareholder and a senior management leader of Sutro to found Blum Capital Partners. Mr Richard C. Blum is now serving and has served as a director on the boards of many listed and unlisted global companies.

Mr Richard C. Blum has a bachelor's degree and an MBA from University of California at Berkeley. He has also studied at Vienna University.

The relationship between the Bank and the ultimate controlling parties of Newbridge Asia AIV III, L. P. is charted as follows:





## Introduction on General Shareholders' Meetings

In the reported year, the Company held a total of five Shareholders' Meetings, including one Annual General Meeting and four Extraordinary General Meetings. A summary of these meeting follows:

**A** On 15 June, 2007, the Company held the 2007 Annual General Meeting. The Resolution Announcement for the 2006 Annual General Meeting of Shenzhen Development Bank Co., Ltd was disclosed in China Securities and the Securities Times on 16 June, 2007.

**B** On 8 June, 2007, the Company held the 2007 1st Extraordinary General Meeting and Relevant Shareholders' Meeting. The Resolution Announcement for the 2007 1st Extraordinary General Meeting and Relevant Shareholders' Meeting of Shenzhen Development Bank Co., Ltd was disclosed in China Securities, the Securities Times and Shanghai Securities News on 9 June, 2007.

**C** On 20 July, 2007, the Company held the 2007 2nd Extraordinary General Meeting. The Resolution Announcement for the 2007 2nd Extraordinary General Meeting of Shenzhen Development Bank Co., Ltd was disclosed in China Securities and the Securities Times on 21 July, 2007.

**D** On 19 December, 2007, the Company held the 2007 3rd Extraordinary General Meeting. The Resolution Announcement for the 2007 3rd Extraordinary General Meeting of Shenzhen Development Bank Co., Ltd was disclosed in China Securities and the Securities Times on 20 December, 2007.

**E** On 19 December, 2007, the Company held the 2007 4th Extraordinary General Meeting. The Resolution Announcement for the 2007 4th Extraordinary General Meeting of Shenzhen Development Bank Co., Ltd was disclosed in China Securities and the Securities Times on 20 December, 2007.

## Important Events

### A Material lawsuits and arbitrations

Within the reported year, there were no lawsuits or arbitrations that had a material impact on operations of the Bank. Up to 31 December 2007, the Bank was involved as a plaintiff in 491 unsettled lawsuits involving RMB3,419 million Yuan in principal and interest. The Bank was involved as a defendant in 26 lawsuits involving up to RMB1,610 million Yuan in disputed Funds, none of which have received verdicts.

### B There were no mergers, acquisitions or asset sales in the reported year

The bank sold an NPL portfolio of RMB1,295 million Yuan in the reported year. Besides that, there were no mergers, acquisitions or asset sales in the reported year.

### C Important related party transactions during the reported year

1 At 31 December 2007, the Bank had accounts receivable from Shenzhen Yuansheng totaling RMB1,059,000 Yuan (December 31 2006: RMB10,989,000 Yuan). The long-term receivables are RMB507,348,000 Yuan (booked as "long-term equity investment"). The Bank has provisioned RMB391,117,000 Yuan. The company is now in the phase of liquidation.

2 Related party transactions between the Bank and key management including their close relatives  
As of 31 December 2007, the Bank had approved related party loans to legal persons whereby the Bank's directors, supervisors and senior executives, including their close relatives, hold positions totaling RMB2,772 million Yuan with RMB1,190 million Yuan in outstanding balance. The off-balance sheet credit line balance totaled RMB390 million Yuan.

3 On 23 October 2007, the Bank announced that the Bank had terminated its Share Subscription Agreement with GECIFC. Following this, the Bank no longer has any relationship with GECIFC that would potentially give rise to a related party transaction.

### D Important contracts and their implementation

- 1 There was no significant custodian, contracting and leasing business in the reported year.
- 2 Except for normal guarantee business approved by the China Banking Regulatory Commission, the Bank had no other significant guarantees.
- 3 The Bank did not entrust others to handle management of cash assets during the reported year.
- 4 The Bank had no significant contract disputes during the reported year.

### E Commitment by the Bank or the Bank's shareholders holding a 5% stake or above

With regard to the share reform and related warrant issuance plan, the major shareholder of the Bank, Newbridge Asia AIV III, L.P., promised that its actions regarding the exercise of its warrants would not create a situation in which more than 20% of SDB's stock is held by Newbridge Asia AIV III, L.P., or over 25% of SDB's stock is held by foreign capital.

### F Certified public accountants engagement

The Bank engaged the Ernst & Young Hua Ming Accounting Firm for the auditing assignment in the reported year. According to regulations by the China Securities Regulatory Commission, the Bank engaged the Ernst & Young Accounting Firm to work on the supplementary financial statement under IFRS.

In 2006, the Bank paid RMB4.2 million Yuan to the Ernst & Young Hua Ming Accounting Firm, and RMB0.5 million Yuan to the Ernst & Young Accounting Firm. Travel expenses of these two accountant firms were not reimbursed by the Bank.

The Ernst & Young Hua Ming Accounting Firm has provided services for the Bank for one year; the Ernst & Young Accounting Firm has provided services for the Bank for seven years.

**G During the reported year, the Bank, the Board of Directors or its members were not examined or penalized by the China Securities Regulatory Commission, nor publicly denounced by the Shenzhen Stock Exchange.**

## H Fund utilization by controlling shareholder and its subsidiaries

The Ernst & Young Hua Ming Accounting Firm issued Special Remarks on Fund Utilization by Controlling Shareholders and Other Related Parties at Shenzhen Development Bank Co., Ltd.

At the end of the reported year, the funds used by controlling shareholders of the Bank and other related parties were as follows:

### Form of Fund Utilization of by Controlling Shareholder and its Subsidiaries

NONOPERATIONAL USE OF FUND									
<i>In RMB'000</i>	Name of fund users	Relationship between user & listed company	Accounting entry for listed Company	Beginning balance	Changes in 2006	Amount paid back in 2006	Ending balance	Reasons	Nature of fund use
Current major Shareholder & its subsidiary									
	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Previous major Shareholders & their subsidiaris									
	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Total</b>							-		

OTHER RELATED FUND FLOW									
<i>In RMB'000</i>	Name of fund users	Relationship between user & listed company	Accounting entry for listed Company	Beginning balance	Changes in 2006	Amount paid back in 2006	Ending balance	Reasons	Nature of fund use
Major Shareholder & its affiliates									
	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Subsidiaries of listed company & its affiliates									
	Shenzhen Yuansheng Co. Ltd.	Controlled Subsidiary	Other account receivables	10,989		(9,930)	1,059	Regular use	Non-operating use
			Long-term investment	507,348	-	-	507,348	Long-term fund appropriation	Non-operating use
Related natural person & their controlled legal persons									
	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Other related parties & affiliates									
	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Total</b>									

## I Explanations and independent opinions of independent directors concerning the external guarantee business offered by the Bank

We, as independent directors of Shenzhen Development Bank, examined the external guarantee business offered by the Bank in an impartial, fair and objective manner pursuant to Document [2003] 56 of CSRC. We concluded that the external guarantee business conducted by Shenzhen Development Bank is a regular banking business approved by the PBOC and CBRC. Shenzhen Development Bank attaches importance to the risk management of this business, and strictly follows the relevant operational flow, examination and approval procedures, thus ensuring effective control of the risk of the external guarantee business.

## J Share reform situation at the Bank

The Bank completed a share reform plan during the reported year.

On 8 June 2007, the 2007 1st Extraordinary Shareholders' Meeting & Relevant Shareholders' Meeting reviewed and approved the Proposal for Share Reform of Shenzhen Development Bank Co. On the basis of the audited 2006 Annual Report, and based on the figure of 1,409,361,965 tradable shares, the Bank offered designated share dividends from its undistributed profits to all tradable shareholders listed on the registration day. Every tradable shareholder was to receive one share per 10 shares held. The said arrangement can be regarded as, the tradable shareholders obtain 0.257 shares as consideration per 10 shares; non-tradable shareholders render 0.675 shares per 10 shares. The Bank offered RMB12,684,257.69 Yuan in cash to all tradable shareholders listed on the registration day, for the purpose of paying tax on the dividends obtained by tradable shareholders.

On 11 June 2007, the Bank received the CBRC Reply to the Share Reform and Relevant Issues of SDB (CBRC Reply [2007] No. 236). CBRC approved the implementation of share reform by the Bank.

On 18 June 2007, the stock dividends and cash dividends were transferred into shareholders' accounts. The non-tradable shares of the Bank gained tradable rights, and became tradable shares with some restrictions on selling.

## K Reception of investigation, communication and interview within the reported year

In the reported year, the Bank has engaged in constant communication with investors and other institutions in the form of press conferences on performance results, analyst meetings, and investor enquiries in respect of performance, financial status, and other issues. The Bank also accepts enquiries by phone from individual investors. The contents of the Bank's communications with investors and other institutions mainly consist in development strategy reports, periodic reports, interim reports with illustrations, disclosing business and management information and announcements of major events, corporate culture, and other related information. The Bank and relevant information disclosure obligators strictly observe the principle of fair information disclosure according to the requirements of the SSE Guidelines on Fair Information Disclosure of Listed Companies, and there has been no violation of this principle.

TIME	Location	Reception manner	Subject	Contents and provided materials
22 March	The Bank	Face to face interview	Investor, analyst	2006 annual report
23 March	HK UBS	Face to face interview	Investor, analyst	2006 annual report
23 March	Shanghai	Face to face interview	Investor, analyst	2006 annual report
25 April	The bank	Face to face interview	Investor, analyst	2007 1Q Report
26 April	Beijing	Face to face interview	Investor, analyst	2007 1Q Report
15 August	The Bank	Face to face interview	Investor, analyst	2007 Interim Report
4-6 September	HK & Singapore	Face to face interview	Investor, analyst	Fundamental
10 September	Beijing	Face to face interview	Investor, analyst	Fundamental
14-15 September	Beijing	Face to face interview	Investor, analyst	Fundamental
22 October	The Bank	Face to face interview	Investor, analyst	2007 3Q Report
8-9 November	Guangzhou	Face to face interview	Investor, analyst	Fundamental
12-13 November	Beijing	Face to face interview	Investor, analyst	Fundamental



## L Reference of Other Important Information Disclosure

ISSUE	Date	Publication
Notice of Board of Directors	6 January 2007	China Securities and Securities Times
Notice of Clarification	18 January 2007	China Securities and Securities Times
Notice of Resolutions of the 24th Meeting of the 6th Board and Announcement of 2006 Profits Growth Forecast	26 January 2007	China Securities and Securities Times
Notice of Resolutions of the 25th Meeting of the 6th Board	9 February 2007	China Securities and Securities Times
Notice of Resolutions of the 26th Meeting of the 6th Board and Announcement of 2006 Annual Results and its Abstract	22 March 2007	China Securities and Securities Times
Notice of Resolutions of the 27th Meeting of the 6th Board and Announcement of 2007 1st Quarter Results	26 April 2007	China Securities and Securities Times
Notice of Resolutions of the 28th Meeting of the 6th Board and Notice of the 1st 2007 Extraordinary General Meeting and Relevant Shareholders Meeting	16 May 2007	China Securities, Shanghai Securities, Securities Times and Securities Daily
Notice of Resolutions of the 29th Meeting and Notice of the Progress and Amendments of the Share Reform Plan	24 May 2007	China Securities, Shanghai Securities, Securities Times and Securities Daily
Notice of the 2006 Annual General Meeting	25 May 2007	China Securities and Securities Times
Notice of Resolutions of the 30th Meeting of the 6th Board and Notice of Additional Proposal for the 2006 Annual General Meeting	2 June 2007	China Securities and Securities Times
Notice of Voting Results of the 1st 2007 Extraordinary General Meeting and Relevant Shareholders Meeting	9 June 2007	China Securities, Shanghai Securities, Securities Times and Securities Daily
Notice of Implementing the Share Reform Plan	14 June 2007	China Securities, Shanghai Securities, Securities Times and Securities Daily
Notice of Resolutions of the 31th Meeting of the 6th Board and Notice of the 2nd 2007 Extraordinary General Meeting and Relevant Meeting	16 June 2007	China Securities and Securities Times
Notice of Resolutions of the 2006 Annual General Meeting	16 June 2007	China Securities and Securities Times
Notice of Warrant Issuance and Notice of the Approval by CSRC of Application for the Warrant Issuance	21 June 2007	China Securities, Shanghai Securities, Securities Times and Securities Daily
Reminder Notice Regarding the Listing of "SFC 1" and "SFC 2" Warrants	29 June 2007	China Securities, Shanghai Securities, Securities Times and Securities Daily
Announcement of 2007 Half Yearly Profits Growth Forecast	17 July 2007	China Securities and Securities Times
Notice of Resolutions of the 2007 2nd Extraordinary General Meeting	21 July 2007	China Securities and Securities Times
Notice of Resolutions of the 33th Meeting of the 6th Board	28 July 2007	China Securities and Securities Times
Notice Regarding the Approval by CBRC of Appointment of Mr Wang Bomin as the Chief Financial Officer	2 August 2007	China Securities and Securities Times
Notice of Resolutions of the 34th Meeting of the 6th Board and Announcement of 2007 Half-Yearly Results and its Abstract	16 August 2007	China Securities and Securities Times
Notice of Resolutions of the 35th Meeting of the 6th Board	7 September 2007	China Securities and Securities Times
Announcement of Profits Growth Forecast for the Third Quarter of 2007	15 October 2007	China Securities and Securities Times
Notice of Resolutions of the 36th Meeting of the 6th Board and Results Announcement for the Third Quarter of 2007	23 October 2007	China Securities and Securities Times
Reminder Notice Regarding the "SFC 1" Warrants	27 October 2007, 1 November 2007, 8 November 2007, 15 November 2007, 16 November 2007 and trading days between 19 November 2007 and 28 December 2007	China Securities and Securities Times
Notice of Resolutions of the 37th Meeting of the 6th Board	31 October 2007	China Securities and Securities Times
Notice of Resolutions of the 38th Meeting of the 6th Board and Notice of Resolutions of Board of Supervisors	22 November 2007	China Securities and Securities Times
Notice of Resolutions of the 39th Meeting of the 6th Board	3 December 2007	China Securities and Securities Times
Notice of Letter of Concern from SSE on Appointment of Independent Directors, Notice of Letter of Disagreement from SSE on Appointment of Independent Director, Notice of the 4th 2007 Extraordinary General Meeting, Reminder Notice of Non-Public Offering and Changes in Shareholders' Holdings and Summary Prospectus of Changes in Shareholders' Holdings by Baosteel Group	4 December 2007	China Securities and Securities Times
Reminder Notice of the 3th 2007 Extraordinary General Meeting and Reminder Notice of the 4th 2007 Extraordinary General Meeting	18 December 2007	China Securities and Securities Times
Notice of Resolutions of the 3th 2007 Extraordinary General Meeting and Notice of Resolutions of the 4th 2007 Extraordinary General Meeting	20 December 2007	China Securities and Securities Times
Notice of Board of Directors	28 December 2007	China Securities and Securities Times

# Our Financial Results

## Key Financials

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## PRC GAAP Financial Statements

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## IFRS Financial Statements

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Our financial reporting team

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## Key Financial Data Highlights

### A Key Profit Statistics in the Reported Year

<i>In RMB'000</i>	Audited figures under PRC GAAP	Audited figures under IFRS
Operating profit	3,721,942	3,721,942
Total profit	3,771,775	3,771,775
Net profit attributable to shareholders of listed company	2,649,903	2,649,903
Net profit less non-recurring gains/losses attributable to shareholders of listed company	2,607,545	2,607,545
Net cash flows from operating activities	17,051,576	17,051,576

Note: Items and amount of deducted non-recurring gains/losses:

<i>In RMB'000</i>	Involved amount
Gains/losses from disposal of long-term equity investment, fixed assets, intangible assets, construction-in-progress, etc.	21,011
Gains/losses from other non-operating expense and revenue after assets loss provision based on corp accounting standards	28,822
Impact of income tax	-7,475
<b>Total</b>	<b>42,358</b>

### B Key Accounting and Financial Statistics for Recent Three Years

#### 1 Key accounting statistics

<i>In RMB'000</i>	<b>2007</b>	2006		±%	2005	
		Before adjustment	After adjustment		After adjustment	Before adjustment
Operating income	<b>10,807,502</b>	7,135,218	7,817,873	38	5,491,271	5,447,701
Total profit	<b>3,771,775</b>	1,994,522	2,121,884	78	638,617	608,682
Net profit attributable to shareholders of the Company	<b>2,649,903</b>	1,302,907	1,411,947	88	351,727	324,544
Net profit less non-recurring income attributable to shareholders of the Company	<b>2,607,545</b>	1,226,956	1,343,229	94	334,702	360,682
Net cash flows from operating activities	<b>17,051,576</b>	7,410,385	11,505,541	41	-4,285,584	-4,285,584
Total asset	<b>352,539,361</b>	260,576,263	260,760,692	35	229,216,416	222,372,318
Owners' equity (or Shareholders' equity)	<b>13,006,063</b>	6,474,463	6,597,040	97	5,043,042	5,067,947



## 2 Key financial statistics

	2007	2006		±%	2005	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Basic EPS (Yuan)	1.27	0.67	0.68	87	0.18	0.16
Diluted EPS (Yuan)	1.22	0.67	0.68	79	0.18	0.16
Basic EPS less non-recurring gains/losses (Yuan)	1.25	0.63	0.64	95	0.17	0.17
Fully diluted return on equity	20.37%	20.12%	21.4%	-1.03	6.97%	6.40%
Weighted return on average equity	33.41%	22.83%	24.45%	8.96	7.16%	7.28%
Fully diluted return on ending equity less non-recurring gains/losses	20.05%	18.95%	20.36%	-0.31	6.64%	7.12%
Weighted return on average equity less non-recurring gains/losses	32.88%	21.5	23.26%	9.62	6.82%	8.09%
Net cash flows from operating activities per share (Yuan)	7.44	3.81	5.91	20	-2.20	-2.20

	2007 Year-end	2006 Year-end		±%	2005 Year-end	
		Before adjustment	After adjustment		Before adjustment	After adjustment
Net asset value per share attributable to shareholders of listed company (Yuan)	5.67	3.33	3.39	67	2.59	2.60

Note: The return on equity and EPS are computed in accordance with the No. 9 Regulation on Information Compilation of Publicly Listed Companies: Calculation and Disclosure of the return on equity and EPS (Revised in 2007) and the Corporate Accounting Standard No. 34 – EPS.

## C Items Designated at Fair Value

In RMB'000	Opening balance	Ending balance	Changes	Impact on profit
Financial assets designated at fair value and changes of which are booked as gains/losses in the period	427,358	1,477,625	1,050,267	13,534
Available-for-sale financial assets	18,052,342	17,850,892	-201,450	-
Investment properties	460,656	441,098	-19,558	42,733
Derivative financial assets	22,763	291,816	269,053	-
Derivative financial liabilities	28,115	255,173	227,058	38,288
Financial liabilities designated at fair value and changes of which are booked as gains/losses in the period	483,751	1,246,657	762,906	-12,384
<b>Total</b>	19,474,985	21,563,261	2,088,276	82,171

## D Differences in Important Audit Figures between Financial Statements under PRC GAAP and under IFRS

### Adjustment form of differences in important audit figures between financial statements under PRC GAAP and under IFRS

In RMB'000	2007	31 December 2007	2006	31 December 2006
	Net Profit	Net Assets	Net Profit (Restated)	Net Assets (Restated)
As stated in audited financial statements under PRC GAAP	2,649,903	13,006,063	1,411,947	6,597,040
Available-for-sale investments	-	-	-	-
Write off costs for setting up sub-branches	-	-	18,669	-
Revaluation of investment properties	-	-	-14,311	-
Adjustment in exchange differences	-	-	43,003	-
Financial guarantee contract designated at fair value	-	-	-	-
Impact of deferred tax	-	-	4,078	-
Under IFRS	2,649,903	13,006,063	1,463,386	6,597,040

## E Changes in Shareholders' Equity in the Reported Year

### 1 Figures audited under PRC GAAP

In RMB'000	Opening balance (Restated)	Increase	Decrease	Ending balance
Share capital	1,945,822	347,585	-	2,293,407
Capital reserve	1,648,517	3,708,838	143,701	5,213,654
Surplus reserve	454,491	264,990	-	719,481
General provision	1,679,704	1,036,000	-	2,715,704
Undistributed profits	868,506	2,649,903	1,454,592	2,063,817
Including: Dividend recommended for distribution	-	-	-	-
<b>Total shareholders' equity</b>	6,597,040	8,007,316	1,598,293	13,006,063

Note: The changes in shareholders' equity in the reported year was attributable to implementation of share reform, exercise of SFC1 warrant, changes in fair value of financial assets, profit generated and profit distribution occurred in the period.

### 2 Figures audited under IFRS

In RMB'000	Opening balance (Restated)	Increase	Decrease	Ending balance
Share capital	1,945,822	347,585	-	2,293,407
Capital reserve	1,571,730	3,698,598	6,794	5,263,534
Reserve	2,211,742	1,311,231	136,907	3,386,066
Including: Accumulated change in fair value				
– available-for-sale investments	76,787	-	136,907	(60,120)
Revaluation of investment properties	760	10,241	-	11,001
Undistributed profits	867,746	2,649,903	1,454,593	2,063,056
<b>Total</b>	6,597,040	8,007,317	1,598,294	13,006,063

## Key Business Data Highlights

Pursuant to the No. 9 Regulation on Information Compilation of Publicly Listed Companies: Special Regulation on Annual Report Contents and Format of Commercial Bank issued by the China Securities Regulatory Commission, and the Special Requirements for Disclosure of 2007 Annual Report of Commercial Bank issued by the Shenzhen Stock Exchange, the Bank's major financial and business data and relevant state of affairs are as follows:

### A Important Financial Statistics of the Bank for Three Years up to the End of Reported Period

<i>In RMB'000</i>	2007	2006	2005
Total liabilities	<b>339,533,298</b>	254,163,652	217,304,371
Total deposits	<b>281,276,981</b>	232,206,328	201,815,801
Long-term deposits	<b>40,680,970</b>	14,897,794	16,102,216
Inter-bank borrowings	<b>2,640,297</b>	–	–
Total loans	<b>221,813,598</b>	182,181,947	155,847,984
Loan balance by type:			
Including: Short-term loans	<b>118,511,839</b>	93,069,356	66,269,601
Trust receipt loans	<b>2,476,060</b>	1,718,802	1,886,573
Discounted bills	<b>7,780,001</b>	16,473,659	38,159,233
Factoring	<b>1,310,420</b>	1,174,384	569,181
Medium to long-term loans	<b>79,424,743</b>	55,059,044	32,483,604
Overdue loans	<b>277,081</b>	279,028	496,725
Non-accruing loans	<b>12,033,454</b>	14,407,674	15,983,067

### B Year-end and Average Monthly Financial Indices for Three Years up to the End of Reported Period

<i>in %</i>	Benchmark value	2007		2006		2005	
		Year-end	Monthly average	Year-end	Monthly average	Year-end	Monthly average
Capital adequacy ratio	≥8	<b>5.77</b>	<b>4.44</b>	3.71	3.63	3.70	3.17
Core capital adequacy ratio	≥4	<b>5.77</b>	<b>4.43</b>	3.68	3.58	3.71	3.28
NPL ratio	≤8	<b>5.62</b>	<b>6.68</b>	7.98	8.63	9.33	10.21
Loan to deposit ratio	≤75	<b>75.78</b>	<b>73.26</b>	71.36	67.78	58.23	56.40
Inter-bank borrowing/lending to deposit ratio							
Inter-bank borrowing to deposit ratio		<b>0.85</b>	<b>0.50</b>	0	0	0	0.07
Inter-bank lending to deposit ratio		<b>0.33</b>	<b>0.69</b>	0.34	1.07	1.09	0.80
Liquidity ratio							
RMB	≥25	<b>39.33</b>	<b>41.85</b>	45.99	34.18	35.89	33.34
In foreign currency	≥25	<b>42.21</b>	<b>57.24</b>	305.70	139.03	87.86	84.45
Ratio of loans to top 1 single client	≤10	<b>5.41</b>	<b>7.84</b>	9.17	11.48	20.67	15.11
Ratio of loans to top10 clients		<b>42.74</b>	<b>63.35</b>	71.38		122.22	
Migration ratio of normal loans		<b>3.72</b>		5.84		7.19	
Including: Migration ratio of Normal loans		<b>1.46</b>		3.15		11.27	
Migration ratio of Special mention loans		<b>62.22</b>		29.29		22.18	
Migration ratio of Substandard loans		<b>13.28</b>		17.50		10.96	
Migration ratio of Doubtful loans		<b>10.59</b>		9.36		3.98	
Provision coverage ratio		<b>48.28</b>		46.91		43.05	
Provision adequacy ratio		<b>127.2</b>		106.90		97.61	
Cost to income ratio		<b>38.93</b>		41.41		47.64	
Return on total ending assets		<b>0.75</b>		0.54		0.15	
Return on ending equity		<b>20.37</b>		21.4		6.40	
Return on average equity (weighted avg)		<b>33.41</b>		24.45		7.28	

Notes: The 2007 financial data as listed in the table above were prepared in accordance with the latest CBRC definitions.

## C Capital Structure and Changes

In RMB million	31 December 2007	31 December 2006	31 December 2005
Net capital	12,692	6,420	4,880
Net core capital	12,693	6,379	4,885
Tier 2 capital	112	45	–
Net risk-weighted assets	220,056	173,222	131,713
Capital adequacy ratio	5.77%	3.71%	3.70%
Core capital adequacy ratio	5.77%	3.68%	3.71%

## D Branches of the Bank

Information about the branches (excluding the Head Office) of the Bank was as follows at the end of reported period:

NAME OF BRANCH	Address	Number of outlets	Asset size (In RMB million)	Number of staff
Head office branch	SDB Tower, 5047 Shennan Road E., Luohu District, Shenzhen	1	14,999	99
Shenzhen Branch	Yinzuo International Building, 1056 Shennan Road, Shenzhen	88	48,990	1,510
Guangzhou Branch	66 Huacheng Avenue, New Pearl River City, Tianhe District, Guangzhou	17	34,071	680
Haikou Branch	22 Jinlong Road, Haikou	4	3,968	154
Zhuhai Branch	8 Yinhua Road, Xiangzhou District, Zhuhai	6	3,639	167
Foshan Branch	148 Lianhua Road, Chancheng District, Foshan	10	10,058	361
Shanghai Branch	1351 Pudong Road S., Pudong, Shanghai	24	44,178	827
Hangzhou Branch	36 Qingchun Road, Hangzhou	16	27,287	519
Ningbo Branch	138 Jiangdong Road N., Ningbo	7	9,855	344
Wenzhou Branch	Guoxin Building, Renmin Road E., Wenzhou	5	7,623	192
Beijing Branch	158 Fuxingmen Nei Dajie, Beijing	19	49,726	665
Dalian Branch	130 Youhao Road, Zhongshan District, Dalian	7	7,869	246
Chongqing Branch	1 Xuetianwan Main Street, Yuzhong District, Chongqing	8	8,884	234
Nanjing Branch	28 Zhongshan Road N., Nanjing	11	16,942	376
Tianjin Branch	10 Youyi Road, Hexi District, Tianjin	9	8,718	312
Jinan Branch	138 Lishan Road, Jinan	6	7,862	218
Qingdao Branch	Tower A, International Commercial Center, 6 Hong Kong Road C., Qingdao	5	6,322	233
Chengdu Branch	206 Shuncheng Street, Chengdu	6	8,038	225
Kunming Branch	450 Qingnian Road, Kunming City	4	4,835	137
<b>Total</b>		253	323,864	7,499

## E Loan Quality during the Reported Period

### 1 5-tier loan classification at the end of reported period

In RMB'000	31 December 2007		31 December 2006		±%
	Loan balance	%	Loan balance	%	
Normal	207,328,797	93.47	161,850,678	88.84%	28
Special mention	2,009,464	0.91	5,766,296	3.16%	-65
Substandard	7,369,919	3.32	6,896,367	3.79%	7
Doubtful	4,505,610	2.03	6,037,257	3.31%	-25
Loss	599,808	0.27	1,631,349	0.90%	-63
<b>Total</b>	<b>221,813,598</b>	<b>100.00</b>	<b>182,181,947</b>	<b>100.00%</b>	<b>22</b>

Notes: 1. The Bank analyzes the 5-tier grading information on the basis of a number of factors including borrower's capacity, principal and interest repayment status, appropriate values of collaterals and pledges, guarantor's capacity and loan management status of the Bank, meanwhile makes appropriate loan impairment provision from the income statement by individual or collective assessment according to the risk level and recoverability and the estimated present value of future cash flow. At the end of reported period, the loan impairment provision balance was RMB 6,024 million Yuan.

2. In accordance with the Notice from Ministry of Finance relating to impairment provisions (Cai Jin [2005] No. 90), the Bank has made enough general provision of RMB 2,716 million Yuan as 1% of risky asset balance, as presented in the Shareholders' equity.

3. The RMB 1.5 billion Yuan loan of Zhongcai series of companies is the major NPL of the Bank, which has been reported to the relevant regulatory authorities. The court proceedings concerning the NPL are underway. The Bank has engaged legal advisors to support the litigation. Due to the uncertainty of future recoverability, the management has set aside special loan impairment provision of RMB 600 million Yuan.

## 2 Restructured, overdue and non-accruing loans in the reported period

<i>In RMB'000</i>	Opening balance	Ending balance	Ending percentage
Restructured loans	3,925,756	2,944,229	1.33%
Overdue loans	279,028	277,081	0.11%
Non-accruing loans	14,407,674	12,033,454	5.43%

Notes: 1. At the end of the reported period, the restructured loan balance of RMB982 million Yuan was RMB2,944 million Yuan, or 25% lower than at the beginning of the year, largely as a result of reinforced management of restructured loans, strengthened collection and disposal of NPL restructured loans, and further promoted NPL disposal efficiency.

2. At the end of reported the year, the overdue loan balance declined by RMB2 million Yuan to RMB277 million Yuan; the non-accruing loan balance fell by RMB2,375 million Yuan, or 16%, to RMB12,033 million Yuan, mainly due to:

a. Strengthened loan maturity management. The Bank noticeably promotes the compliance level of facilitate provisions such as timely repayment by means of enhancing credit compliance regulation, and as a result effectively ensures the collection of matured credit asset as well as complete and effective creditor's right of the Bank.

b. In order to strengthen the tracking and monitoring of loan repayment status and asset quality, the Bank follows up the newly-generated overdue loans and non-accruing loans on a daily basis, urges the repayment, and takes timely measures to prevent and mitigate the credit risk.

## 3 Loan impairment charges and write-offs in the reported period

<i>In RMB'000</i>	Audited figures under PRC GAAP	Audited figures under IFRS
Opening balance	6,937,141	6,937,141
Add: Reserves in the current year	1,946,243	1,946,243
Less: Reduced interest from impaired loan	518,592	518,592
Net provisions in the current year	1,427,651	1,427,651
Add: Recoveries in the current year	34,061	34,061
Add: Exchange difference	-72,908	-72,908
Less: Write-off in the current year	2,301,981	2,301,981
Ending balance	6,023,964	6,023,964

Note: On the basis of a number of factors including borrower's capacity, principal and interest repayment status, values of collaterals and pledges, guarantor's capacity, and loan management status, the Bank makes appropriate loan impairment provision from the income statement individually or collectively according to the risk level and recoverability and the estimated present value of future cash flow.

## F Top 10 Borrowers and their Percentage of Total Lending at the End of Reported Period

By the end of reported period, the loan balance of the top 10 borrowers of the Bank totaled RMB5,425 million yuan, or 2.45% of the ending loan balance. The top 10 borrowers are: Shenzhen City Citic Plaza Investment Co. Ltd., Beijing State-owned Assets Management Co. Ltd., Shanghai Fengxian Construction Investment Co. Ltd., Jiangsu Expressway Operations Management Center, Chengdu Renju Real Estate Co., Ltd., Nanjing Underground Railway Co., Ltd., Shanghai Zhu Jia Jiao Investment and Development Co., Ltd., Zhejiang Shunfeng Transportation Group Company, Chongqing Municipal Construction and Investment Co., Ltd., and Chongqing Yufu Asset Management Co., Ltd.

**G** No government-subsidized loans equaling to or more than 20% of total lendings were on record by the end of reported period.



## H Composition of and Changes in Operating Income in the Reported Period

In RMB'000	2007		2006		±%
	Amount	%	Amount	%	
Net interest income	9,605,849	88.88	6,999,647	89.53	37
Including: Net interest income on credit business	9,174,519	84.89	6,288,166	80.43	46
Net interest income on amounts due from banks and placements	-869,775	-8.05	-168,098	-2.15	-417
Interest income on bond business	1,301,105	12.04	879,579	11.25	48
Net income on service fee and commission	520,713	4.82	345,953	4.43	51
Net other operating income	680,940	6.30	472,273	6.04	44
Total operating income	10,807,502	100.00	7,817,873	100.00	38

The net interest income witnessed a great leap compared with a year ago, whereas its proportion to operating income declined in the face of product innovation and fee business expansion which promoted the performance of non-interest income. Among the non-interest income, the net income of fee and commission rose by 50.52% compared with the same period of last year.

## I Top 10 Industrial and Geographical Segments of Lendings

### 1 By industry

At the end of reported period, the loan balance of top 10 industries was RMB157,8 million yuan, accounting for 99.68% of the loan ending balance. Those mainly include: manufacturing (light industry), service, commerce, real estate, transportation and communication, energy, construction, excavation (heavy industry), technology culture and sanitation, and other industry.

In RMB'000	Balance	%
Corporate Loans		
Manufacturing (Light industry)	55,407,762	24.98
Social service	27,503,255	12.40
Commerce	26,296,722	11.85
Real estate	14,411,307	6.50
Transportation, storage and communication	12,663,872	5.71
Energy	7,832,400	3.53
Construction	7,340,077	3.31
Excavation (Heavy industry)	2,812,800	1.27
Technology, culture and sanitation	2,466,114	1.11
Others	1,029,649	0.46
Agriculture, stockbreeding and fish culture	506,927	0.23
Individual Loans	63,542,713	28.65
<b>Total</b>	<b>221,813,598</b>	<b>100.00</b>

Lendings of the Bank mostly concentrate on individual loans, manufacturing (light industry), social service, and commerce, respectively making up 29%, 25%, 12%, and 12% of the ending balance. The Bank adjusts its industry credit policy in accordance with state industry policy and strengthened research on industry credit. Guidance on industry credit policy was formulated to set out specific thresholds for 54 industries, for the purpose of preventing the industry risk of loan portfolios.

### 2 By geographical region

In RMB'000	Balance	%
Southern China	78,390,451	35.34
Eastern China	78,066,203	35.19
Northern China	49,966,780	22.53
Others	14,360,528	6.48
Off-shore business	1,029,636	0.46
<b>Total</b>	<b>221,813,598</b>	<b>100.00</b>

### 3 By guarantee method

<i>In RMB'000</i>	Balance	%
Unsecured loans	31,864,556	14.37
Guaranteed loans	62,376,974	28.12
Collateralized loans	89,703,166	40.44
Pledged loans	37,868,902	17.07
<b>Total</b>	<b>221,813,598</b>	<b>100.00</b>

### J Repossessed Assets at the End of the Reported Period

<i>In RMB'000</i>	Balance
Land, premises and real estate	983,027
Others	22,291
Subtotal	1,005,318
Balance of repossessed assets impairment provisions	198,143
Net value of repossessed assets	807,175

### K Average Annual Loan Balance and Interest Rates Classified on a Monthly Basis

<i>In RMB'000</i>	Average balance	Average interest rate
Short-term loans (home & foreign currencies)	107,456,746	6.30%
Medium and long-term loans (home & foreign currencies)	69,002,977	6.24%
<b>Total</b>	<b>176,459,723</b>	<b>6.28%</b>

Note: The above short-term loans and medium and long-term loans exclude the trust receipt loans, discount, overdue loans and non-accruing loans.

### L Information on Holdings of Financial Bonds at the End of Reported Period

At the end of the reported year, the face values of holdings of treasury bills and financial bond (including PBOC bills, policy bank debts, various ordinary financial debts, and financial subordinated debts) of the Bank were RMB48,555 million Yuan. The bonds of substantial amount are stated as below:

<i>In RMB'000</i>	Face value	Nominal annual interest rate (%)	Maturity date	Provision
2006 Treasury Bills	5,867,000	2.12–2.8	2009/04–2016/03	–
2007 Treasury Bills	1,613,040	0–5.25	2008/01–2017/12	–
2001 Treasury Bills	1,623,040	2.9–6.8	2008/06–2011/08	–
2003 Treasury Bills	1,553,064	0–4.75	2008/07–2013/10	–
2002 Financial Bonds	3,550,944	0–7.51	2009/04–2022/05	–
2005 Financial Bonds	2,142,457	2.05–4.13	2008/03–2020/06	–
2006 Financial Bonds	1,778,649	0–4.3	2008/06–2016/02	–
2007 Financial Bonds	3,730,500	0–5.7	2008/02–2017/09	–
PBOC Bills	19,278,730	0–3.95	2008/01–2010/10	–

### Information on holdings of financial derivative instruments at the end of reported period

<i>In RMB'000</i>	Nominal amount	Fair value	
		Asset	Liability
Interest rate derivative instruments	170,000	–	-1,553
Foreign exchange derivative instruments	10,924,402	166,122	-139,604
Equity derivative instruments	3,044,517	87,827	-76,149
Other derivative instruments	1,482,337	37,867	-37,867

## M Provisions for Interests Receivable and Other Receivables in the Reported Period

<i>In RMB'000</i>	Amount	Provision
Receivables (interest receivable)	1,126,372	–
Other receivables	1,195,846	234,665

*Note: Interest receivables arising from interest-earning assets such as loans would offset interest income in the event that interest receivables become overdue for 90 days and fail to be recovered. Such interest receivables were not included on the Balance Sheet and no provision was made against them. In respect of the other receivables, the Bank analyzed the probability of recovery individually and made provision in a logical way.*

## N Average Annual Balances and Interest Rates of Principal Types of Deposits in the Reported Period

<i>In RMB'000</i>	Average annual balance	Average annual deposit interest rate
Corporate savings deposits (home & foreign currencies)	77,497,684	0.96%
Corporate fixed deposits (home & foreign currencies)	71,268,448	2.99%
Household savings deposits (home & foreign currencies)	15,190,439	0.78%
Household fixed deposits (home & foreign currencies)	20,082,251	2.30%

## O NPL Balance at the End of the Reported Period and Measures that have been taken or to be taken to Settle NPL at the End of Reported Period

Balance of non-performing loans was RMB12,476 million Yuan at the end of reported period, including substandard, doubtful and loss categories on the basis of the 5-tier loan grading system.

In the reported period, in pursuit of the refined and elaborate management the Bank shored up internal control management and reinforced NPL collection and repossessed assets disposal, improved the incentive mechanism and enhanced the NPL write-off management. There was RMB2,003 million yuan collected with 92.54% in cash, repossessed assets of RMB180 million yuan disposed, and RMB2,320 million Yuan bad debts written off. The bank also successfully sold a NPL portfolio of RMB1,295 million Yuan. Measures that have been taken or to be taken by the Bank to settle NPL within the reported period include:

- 1 Further strengthen the internal management of NPL clearing department, further complete the incentive policy for collection, and further enhance the work on NPL collection at various levels;
- 2 Reinforce the basic management of NPL collection, classify and grade all the NPLs, set out scientific collection target and strategy, and reinforce the management of bank-wide collection plan;
- 3 Enhance the joint action between the Head Office and branches, and substantially advance the management of major cases. Continuously reform the collection measures with one strategy for one case, so as to improve collection effect through a variety of collection ways;
- 4 Boost the operation and disposal of repossessed assets in order to realize preservation and appreciation of repossessed assets;
- 5 Step up write-off management, strengthen management of NPLs of loss-category and write them off on a quarterly basis, meanwhile clear and classify the bad debts already written off, and input the resources in force to more valuable collection works.

## P There are No Outstanding Debts in Default owed by the Bank in the Reported Period

## Q Year-end Balance for Off-balance Sheet Business that may have Significant Impact on the Bank's Financial Status and Operating Results

<i>In RMB'000</i>	Amount
Banker's acceptance bills	121,882,685
Issuance of L/C	1,912,162
Issuance of letters of guarantee	2,212,937
Unused credit line	8,804,290
Leasehold promise	1,172,169

## **R Risks Revealed in the Prior Reported Period causing loss to the Bank, and the Various Risk Factors subsisting at year-end that may have Major Impact on the Bank, with Corresponding Countermeasures adopted by the Bank, therefore the Risks as Stated above caused neither Significant Impact on the Operation nor Grave loss to the Bank in the Reported Period**

The Bank is fully aware of the risks disclosed in the prior reported period and has taken precautionary measures to cope with the risks which have constituted neither significant impact on nor grave loss to the Bank's operation.

Credit risk, market risk, operational risk and liquidity risk etc are the major risks facing the Bank in this reported period and in the future.

### **1 Credit risk**

Credit risk indicates the possibility that the borrower or transactional counterparty fails to fulfill obligation as agreed in agreement. Credit risk of the Bank mainly arises from loans, advances, and guarantees.

The Bank established an independent vertical system for credit risk management, formulate a set of operation procedures and standards of credit authority, approval and post-lending management to be carried out across the Bank; set the dual-rating system to rate the clients as well as credit asset risks. The risks of credit assets of corporate clients were categorized into 11 tiers in order to take different credit management policies for different levels of clients and loans. The Bank enhanced unified management of facilities to control concentration risk, resulting in a drop of proportion of facilities to single group clients by years, and the proportion of lending to single group clients meeting the regulatory requirement. The Bank enforced management of facilities to related legal person; controlled the reasonable growth of medium and long term loans in line with the ceiling of credit portfolio; strengthened monitoring and pre-warning of credit business; carried out annual credit inspection and various special inspections at every branch; laid out various measures to settle NPLs and achieved dual-decline of NPL balance and NPL ratio; enhanced management of restructured loans; formulate relevant rules and regulations to clarify the policies, procedures and instruments for NPA reconstruction and realized fairly good result.

With respect to credit risk could be induced by credit businesses and products in 2007, the Bank effectively controlled the risk mainly by strictly implementing state macro-control policy and lending progress plan, enhancing guidance on credit policy, improving admittance examination and risk management of credit products, optimizing credit mix and assets portfolios, refraining from lending to industries of overcapacity and of high pollution and energy-consuming, implementing the credit process optimization project; and strengthening development of credit management information system. Through the establishment of strategic client classification and management system and the client entering and withdrawing system, the Bank realized continuous development of credit business.

### **2 Market risk**

Major market risk facing the Bank comes from long position of interest rate and exchange rate products. Either transaction business or non-transaction business of the Bank could incur market risk. The target of market risk management is to avoid excessive loss of revenue or equity caused by it, meanwhile to offset the impact of volatility risk of financial instruments on the Bank.

The Bank set up Asset/Liability Committee to formulate policies of market risk management and to determine the targets of both market risk management and position limit on market risk. The committee was also responsible for dynamically controlling business volume and structure, interest rate and liquidity etc. for the Bank. The Financial information and Asset/Liability Management Department undertook the regular responsibilities of market risk monitoring, including determining a reasonable level of market risk exposure, monitoring daily operation of treasury business, giving advice to adjust maturity structure and interest rate structure of assets and liabilities of the Bank.

### **3 Operational risk**

Operational risk is the risk resulting from defective internal procedure, operator error or fraud, and external events. In the reported period, the Bank kept the concept of controlling operational risk from six dimensions of "people, regulation procedure, system, inspection and supervision, report and database" to build the risk management system for accounting and settlement operation across the Bank; fulfilled the requirement of properly managing operational risk with regulatory authorities in a systematic manner; adopted a series of effective measures to strengthen the management of operational risk; gradually improved the compliance and internal control level for accounting and settlement; remarkably enhanced the internal control awareness, risk awareness and responsibility awareness in the employees. Although it is not realistic to completely eliminate all operational risks, the Bank endeavors to focus its attention on limiting material operational risks.

#### 4 Liquidity risk

Liquidity risk refers to the shortage of capital for repayment while liabilities maturing. Mismatched amount or maturity of assets and liabilities could incur the risk. In order to monitor the risk effectively, the senior management team emphasized on diversifying the capital sources, improving the proportion of core deposits and monitoring loan and deposit scale on a daily basis. The Bank maintained a scale of bonds with high liquidity, which can be converted into cash in time if needed. Besides, the Bank held a large quantity of high-quality HTM bonds available for repo, which could be used as additional financing channel. Also, the bank has additional cash which is generally placed with other Chinese banks. The bank regularly monitors and manages its cash position. The Bank also made regular pressure test on liquidity, and provided corresponding solutions to test results under different circumstances.

The 2007 4Q market liquidity in the banking system was tightened to some extent due to impact of macro-control. The bank took a set of steps to deal effectively and prudently with the market conditions.

At the end of 2007, the first block of warrants were exercised and brought some RMB4,000 million Yuan core capital. That provides extra liquidity in 2008. The bank believes that its liquidity is ample and that its liquidity position is properly managed.

#### 5 Other risks

Other risks facing the Bank include compliance risk and legal risk.

The Bank set up Compliance Departments at the Head Office and branches, established clear route for compliance report and primarily set up compliance management system. As the functional department for compliance risk management, the Compliance Department is responsible for such responsibilities as recognition, monitoring, and report of compliance risk, as well as compliance consultancy and education. The department regularly report to the Audit and Related Party Transaction Control Committee under the board, and receive guidance from the committee. In 2007 the Bank made a lot of work in management of related party transaction, system streamlining, explanation and advocacy of policies and regulations, compliance risk recognition of new product and business, anti-money laundering, compliance concept promotion for staff, etc., and as a result effectively managed the compliance risk.

The Bank set the Legal Affair Department. In 2007 the Bank staffed the legal team force, and further improved the legal risk management system. The step of legal examination was added to the relevant business progress and the legal specialists fully involved into the decision-making processes such as contract entering, management system formulation, development of new products and businesses. Meanwhile, the Bank engaged well-known legal firm in China as the external legal consultant, in order to provide professional opinion about major legal affairs. Thus the legal risks of various businesses were effectively controlled.

### S Integrity, Rationality and Effectiveness of Internal Control System

Internal control of commercial banks consists of a series of policies, procedures and measures on preventing risks, with an aim to achieve the business target. In accordance with Law of the People's Republic of China on Commercial Banks, Guideline on Internal Control of Commercial Banks (CBRC), and Guideline on Internal Control of Listed Company (Shenzhen Stock Exchange), the Bank has established regulations and operation instructions for various businesses. Internal control policies have been practiced in various business procedures and at each operational step, covering all departments and positions in the Bank.

During the reported period, the Bank implemented sound capital evaluation procedure according to the quality, range and complexity of the business. The procedure was reasonable and valid, which effectively detected and managed the large amount exposure and concentration risks. By carrying out pressure tests including sensitivity test and scenario test, the Bank understood the relations between potential risks and financial position, analyzed the ability of risks resistance; laid out countermeasures to guard against the impact of extreme event. The current internal control rules are basically complete, reasonable and valid, and the internal control system is sound and complete, with no major default was found in the internal control system. In 2008 the Bank will continue to improve the internal control system.



## Auditors' Report

### Ernst & Young Hua Ming (2008) Shenzi No. 60438538\_H01

To the shareholders of Shenzhen Development Bank Co., Limited

We have audited the accompanying financial statements of Shenzhen Development Bank Co., Ltd. (the "Company"), which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in owners' equity and cash flow statement for the year then ended and notes to the financial statements.

#### Management's Responsibility for the Financial Statements

The management is responsible for preparing financial statements in accordance with Accounting Standards for Business Enterprises. This responsibility includes (1) designing, implementing and maintaining the internal control relevant to the preparation of the financial statements that are free from material misstatement whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

#### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider the internal control relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements of the Company have been prepared in accordance with Accounting Standards for Business Enterprises, and present fairly, in all material aspects, the financial position of the Company as of 31 December 2007 and the results of its operations and its cash flows for the year then ended.

Ernst & Young Hua Ming



Beijing, the People's Republic of China  
19 March 2008

Chinese Certified Public Accountant



Zhang Xiaodong

Chinese Certified Public Accountant



Xu Xuming

## Balance Sheet

at 31 December 2007

<i>In RMB'000</i>	Note E	2007	2006 (Restated)
<b>ASSETS</b>			
Cash on hand and due from the Central Bank	1	40,726,387	26,288,176
Precious metals		8,200	–
Placement of deposits with other financial institutions	2	4,013,690	3,081,003
Funds loaned to other financial institutions	3	2,642,656	3,369,176
Financial assets at fair value through profit or loss	4	1,477,625	427,358
Derivative financial assets	5	291,816	22,763
Reverse repurchase agreements	6	33,768,925	11,271,768
Interest receivable	7	1,126,372	675,700
Loans and advances	8	215,789,634	175,244,806
Available-for-sale financial assets	9	17,850,892	18,052,342
Held-to-maturity investments	10	15,911,486	17,548,193
Receivables-bond investments	11	13,450,000	–
Long-term equity investments	12	251,948	247,665
Investment properties	13	441,098	460,656
Fixed assets	14	1,554,278	1,542,789
Intangible assets		67,725	26,568
Deferred tax assets	15	994,389	1,015,930
Other assets	16	2,172,240	1,485,799
<b>Total assets</b>		<b>352,539,361</b>	<b>260,760,692</b>
<b>LIABILITIES</b>			
Placement of deposits from other financial institutions	17	32,388,762	17,069,244
Funds borrowed from other financial institutions	18	2,640,297	–
Financial liabilities at fair value through profit or loss	4	1,246,657	483,751
Derivative financial liabilities	5	255,173	28,115
Repurchase agreements	19	16,467,582	741,010
Customer deposits	20	281,276,981	232,206,328
Employee benefits payable	21	925,411	614,628
Tax payable	22	819,756	503,553
Interest payable	23	1,728,071	942,538
Provisions		77,447	55,449
Deferred tax liabilities	15	98,544	262,668
Other liabilities	24	1,608,617	1,256,368
<b>Total liabilities</b>		<b>339,533,298</b>	<b>254,163,652</b>
<b>OWNERS' EQUITY</b>			
Share capital	25	2,293,407	1,945,822
Capital reserve	26	5,213,654	1,648,517
Surplus reserve	27	719,481	454,491
General reserve	28	2,715,704	1,679,704
Unappropriated profit	29	2,063,817	868,506
Total owners' equity		13,006,063	6,597,040
<b>Total liabilities and owners' equity</b>		<b>352,539,361</b>	<b>260,760,692</b>

(The accounting policies and explanatory notes (page 85 – 128) form an integral part of the financial statements)

Legal Representative  
**Frank N. Newman**

President  
**Xiao Suining**

Chief Financial Officer  
**Wang Bomin**

Accounting Manager  
**Wang Lan**

## Income Statement

for the year ended 31 December 2007

<i>In RMB'000</i>	Note E	2007	2006 (Restated)
<b>Operating income</b>			
Interest income	30	18,043,900	12,068,420
Interest expense	30	(8,438,051)	(5,068,773)
Net interest income	30	9,605,849	6,999,647
Fee and commission income	31	667,751	421,988
Fee and commission expense	31	(147,038)	(76,035)
Net fee and commission income	31	520,713	345,953
Investment income	32	200,984	99,623
Gains or losses from changes in fair values	33	82,171	113,612
Net foreign exchange difference		232,816	145,986
Other operating income	34	164,969	113,052
Total operating income		10,807,502	7,817,873
<b>Operating costs</b>			
Business tax and surcharge		(824,307)	(553,472)
General and administrative expenses	35	(4,207,494)	(3,237,145)
Total operating costs		(5,031,801)	(3,790,617)
<b>Operating profit before impairment loss of assets</b>			
Impairment loss of assets	36	(2,053,759)	(1,986,217)
<b>Operating profit</b>			
Add: Non-operating income		89,720	102,303
Less: Non-operating expenses		(39,887)	(21,458)
<b>Profit before tax</b>			
Less: Income tax expense	37	(1,121,872)	(709,937)
<b>Net profit for the year</b>			
		2,649,903	1,411,947
<b>Earnings per share</b>			
Basic earnings per share (Renminbi Yuan)	38	1.27	0.68
Diluted earnings per share (Renminbi Yuan)	38	1.22	0.68

(The accounting policies and explanatory notes (page 85 – 128) form an integral part of the financial statements)

Legal Representative  
**Frank N. Newman**

President  
**Xiao Suining**

Chief Financial Officer  
**Wang Bomín**

Accounting Manager  
**Wang Lan**

## Cash Flows Statement

for the year ended 31 December 2007

In RMB'000	Note E	2007	2006 (Restated)
<b>Cash flows from operating activities</b>			
Net increase in customer deposits and placement of deposits from other financial institutions		64,390,171	36,990,536
Net increase in funds borrowed from other financial institutions		2,640,297	-
Net decrease in funds loaned to financial institutions		-	1,131,986
Cash receipts from interest and fee and commission income		16,685,740	10,989,358
Cash receipts relating to other operating activities		16,942,981	303,788
Subtotal of cash inflows from operating activities		100,659,189	49,415,668
Net increase in loans and advances		42,083,860	27,163,090
Net increase in amounts due from the Central Bank and placement of deposits with other financial institutions		15,582,324	2,675,420
Net increase in funds loaned to other financial institutions		806,570	-
Cash payments for interest and fee and commission expenses		7,799,556	5,023,361
Cash payments for salaries and staff expenses		1,819,547	1,267,084
Cash payments for taxes		1,784,754	1,170,284
Cash payments relating to other operating activities		13,731,002	610,888
Subtotal of cash outflows from operating activities		83,607,613	37,910,127
Net cash flows generated from operating activities		17,051,576	11,505,541
<b>Cash flows from investing activities</b>			
Cash receipts from investments upon disposal/maturity		111,371,414	50,023,135
Cash receipts from investment income		680,642	735,195
Cash receipts from disposal of fixed assets and investment properties		128,240	363,959
Subtotal of cash inflows from investing activities		112,180,296	51,122,289
Cash payments for investments		123,539,875	59,721,847
Cash payments for fixed assets, investment properties and intangible assets		372,198	219,428
Subtotal of cash outflows from investing activities		123,912,073	59,941,275
Net cash flows used in investing activities		(11,731,777)	(8,818,986)
<b>Cash flows from financing activities</b>			
Cash receipts from exercise of warrants		3,136,366	-
Subtotal of cash inflows from financing activities		3,136,366	-
Cash payments for distribution of dividends		20,858	1,227
Cash payments for expenses of share reform and exercise of warrants		13,120	-
Subtotal of cash outflows from financing activities		33,978	1,227
Net cash flows generated from/(used in) financing activities		3,102,388	(1,227)
<b>Effect of exchange rate changes on cash and cash equivalents</b>		-	-
<b>Net increase in cash and cash equivalents</b>		<b>8,422,187</b>	<b>2,685,328</b>
Add: Cash and cash equivalents at beginning of the year	39	22,133,228	19,447,900
<b>Cash and cash equivalents at end of the year</b>	39	<b>30,555,415</b>	<b>22,133,228</b>

(The accounting policies and explanatory notes (page 85 – 128) form an integral part of the financial statements)

Legal Representative  
Frank N. Newman

President  
Xiao Suining

Chief Financial Officer  
Wang Bomin

Accounting Manager  
Wang Lan

**Cash Flows Statement** *(Continued)*

for the year ended 31 December 2007

<i>In RMB'000</i>	Note E	2007	2006 (Restated)
<b>SUPPLEMENTARY INFORMATION</b>			
<b>Adjustment of net profits to cash flows generated from operating activities</b>			
Net profit for the year		2,649,903	1,411,947
Impairment loss of assets		2,053,759	1,986,217
Interests related to unwinding of discounts of provisions for impaired financial assets		(518,592)	(560,421)
Depreciation of fixed assets		206,652	198,200
Amortisation of intangible assets		14,275	33,567
Amortisation of leasehold improvement and other assets		71,404	92,568
Gains on disposal of fixed assets and investment properties		(14,700)	(59,928)
Gains from changes in fair values		(82,171)	(113,612)
Interest on bond investments and investment income		(1,484,248)	(958,259)
(Increase)/decrease in net deferred tax asset		(118,764)	1,779
Increase in operating receivables		(71,287,210)	(26,858,090)
Increase in operating payables		85,503,209	36,329,175
Collections of amounts already written-off		34,061	2,398
Increase in provisions		23,998	-
Net cash flows generated from operating activities		17,051,576	11,505,541
<b>Net increase in cash and cash equivalents</b>			
Cash at end of the year	39	1,062,241	909,080
Less: Cash at beginning of the year		909,080	787,992
Add: Cash equivalents at end of the year	39	29,493,174	21,224,148
Less: Cash equivalents at beginning of the year		21,224,148	18,659,908
Net increase in cash and cash equivalents		8,422,187	2,685,328

*(The accounting policies and explanatory notes (page 85 – 128) form an integral part of the financial statements)*

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## Statement of Changes in Owners' Equity

<i>In RMB'000</i>	Note E	Share capital	Capital reserve	Of which: Cumulative changes in fair value of available-for-sale financial assets	Of which: Revaluation surplus on owner-occupied properties transferred to investment properties	Surplus reserve	General reserve	Unappropriated profit	Total
<b>At 31 December 2006</b>		1,945,822	1,648,517	76,787	–	454,491	1,679,704	745,929	6,474,463
Add: Retrospective adjustments under the New Accounting Standards		–	–	–	–	–	–	122,577	122,577
<b>At 1 January 2007</b>		1,945,822	1,648,517	76,787	–	454,491	1,679,704	868,506	6,597,040
<b>Movements in the year</b>		347,585	3,565,137	(136,907)	10,240	264,990	1,036,000	1,195,311	6,409,023
1. Net profit for the year		–	–	–	–	–	–	2,649,903	2,649,903
2. Gains and losses recognised directly in owners' equity		–	(126,667)	(136,907)	10,240	–	–	–	(126,667)
(i) Net change in fair value of available-for-sale financial assets		–	(162,975)	(162,975)	–	–	–	–	(162,975)
(a) Valuation gain/(loss) taken into equity		–	(102,259)	(102,259)	–	–	–	–	(102,259)
(b) Transferred to the income statement		–	(60,716)	(60,716)	–	–	–	–	(60,716)
(ii) Revaluation surplus on owner-occupied properties transferred to investment properties		–	12,489	–	12,489	–	–	–	12,489
(iii) Tax on items taken directly into or transferred from equity		–	23,819	26,068	(2,249)	–	–	–	23,819
Total recognised income and expenses for the year		–	(126,667)	(136,907)	10,240	–	–	2,649,903	2,523,236
3. Exercise of warrants		206,649	3,698,598	–	–	–	–	–	3,905,247
4. Expenses of share reform plan		–	(6,794)	–	–	–	–	–	(6,794)
5. Profit appropriation		140,936	–	–	–	264,990	1,036,000	(1,454,592)	(12,666)
(i) Appropriation to surplus reserve	27	–	–	–	–	264,990	–	(264,990)	–
(ii) Appropriation to general reserve	28	–	–	–	–	–	1,036,000	(1,036,000)	–
(iii) Dividends – stock dividends	29	140,936	–	–	–	–	–	(140,936)	–
Dividends – cash dividends	29	–	–	–	–	–	–	(12,666)	(12,666)
<b>At 31 December 2007</b>		<b>2,293,407</b>	<b>5,213,654</b>	<b>(60,120)</b>	<b>10,240</b>	<b>719,481</b>	<b>2,715,704</b>	<b>2,063,817</b>	<b>13,006,063</b>

(The accounting policies and explanatory notes (page 85 – 128) form an integral part of the financial statements)

Legal Representative  
**Frank N. Newman**

President  
**Xiao Suining**

Chief Financial Officer  
**Wang Bomin**

Accounting Manager  
**Wang Lan**

## Statement of Changes in Owners' Equity (Continued)

<i>In RMB'000</i>	Share capital	Capital reserve	Of which: Cumulative changes in fair value of available-for-sale financial assets	Surplus reserve	General reserve	Unappropriated profit	Foreign exchange difference	Total
<b>At 31 December 2005</b>	1,945,822	1,574,374	2,644	324,200	479,704	773,314	(43,003)	5,054,411
Add: Retrospective adjustments under the New Accounting Standards	-	-	-	-	-	13,536	-	13,536
<b>At 1 January 2006</b>	1,945,822	1,574,374	2,644	324,200	479,704	786,850	(43,003)	5,067,947
<b>Movements in the year</b>	-	74,143	74,143	130,291	1,200,000	81,656	43,003	1,529,093
1. Net profit for the year (restated)	-	-	-	-	-	1,411,947	-	1,411,947
2. Gains and losses recognised directly in owners' equity	-	74,143	74,143	-	-	-	-	74,143
(i) Net change in fair value of available-for-sale financial assets	-	87,694	87,694	-	-	-	-	87,694
(a) Valuation gain/(loss) taken into equity	-	113,640	113,640	-	-	-	-	113,640
(b) Transferred to the income statement	-	(25,946)	(25,946)	-	-	-	-	(25,946)
(ii) Tax on items taken directly into or transferred from equity	-	(13,551)	(13,551)	-	-	-	-	(13,551)
Total recognised income and expenses for the year (restated)	-	74,143	74,143	-	-	1,411,947	-	1,486,090
3. Profit appropriation	-	-	-	130,291	1,200,000	(1,330,291)	-	-
(i) Appropriation to surplus reserve	-	-	-	130,291	-	(130,291)	-	-
(ii) Appropriation to general reserve	-	-	-	-	1,200,000	(1,200,000)	-	-
4. Other movement	-	-	-	-	-	-	43,003	43,003
<b>At 31 December 2006</b>	1,945,822	1,648,517	76,787	454,491	1,679,704	868,506	-	6,597,040

(The accounting policies and explanatory notes (page 85 – 128) form an integral part of the financial statements)

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## Notes to the Financial Statements

### A General Information

Shenzhen Development Bank Co., Ltd. (the "Company") was established in the People's Republic of China (the "PRC") as a result of the restructuring of six agricultural credit co-operatives into a joint stock commercial bank with limited liability. The Company was established on 22 December 1987 after the initial public offering of its RMB ordinary shares on 10 May 1987. The Company was listed on the Shenzhen Stock Exchange on 3 April 1991 and the stock code is 000001.

The institution number of the Company on the 00000028 approval document issued by the China Banking Regulatory Commission is B0014H144030001. The business licence number of the Company issued by the Shenzhen Municipal Administration of Industry and Commerce is 440301103098545.

The Company is principally engaged in authorised commercial and retail banking activities in the PRC.

The registered office of the Company is located at No. 5047, Shennan Road East, Luohu District, Shenzhen, Guangdong Province, PRC. Headquartered in Shenzhen, the Company operates its business in the PRC. As at 31 December 2007, the Company has established branches in Beijing, Shanghai, Tianjin, Guangzhou, Shenzhen, Chongqing, Dalian, Hangzhou, Nanjing, Haikou, Jinan, Qingdao, Zhuhai, Foshan, Ningbo, Wenzhou, Chengdu and Kunming.

### B Basis of Preparation

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises ("ASBEs"), issued by the Ministry of Finance, PRC (hereinafter referred to as the "MOF") in 2006 (including the Basic Standard, Specific Standards, Implementation Guidance and other relevant regulations).

In accordance with the "Notice of the Ministry of Finance on Publishing the 'Accounting Standards for Business Enterprises No. 1 – Inventories' and other 37 Specific Standards" (Cai Kuai [2006] No. 3), the Company applies ASBEs which were promulgated by the MOF in 2006, on 1 January 2007. The financial statements have been adjusted retrospectively and restated for the related accounting years in accordance with ASBE No. 38 – First-time adoption of Accounting Standards for Business Enterprises and "China Accounting Standards Interpretation No. 1". The Company has presented the restated comparative financial information of the balance sheet as at 31 December 2006 and the income statement for the year ended 31 December 2006.

Please refer to Note D.31 for the impact of the related retrospective adjustments on the owners' equity at 31 December 2006 and the net profit for the year ended 31 December 2006 of the Company.

### C Statement of Compliance

The financial statements have been prepared in accordance with ASBEs and present fairly the financial position of the Company as at 31 December 2007 and the results of its operation and its cash flows for the year then ended 31 December 2007.

The financial statements of the Company are prepared on a going concern basis.

### D Summary of Significant Accounting Policies and Accounting Estimates

#### 1 Accounting year

The accounting year of the Company is from 1 January to 31 December.

#### 2 Functional currency

The Company's functional and presentation currency is Renminbi ("RMB"). Unless otherwise stated, the unit of the currency is thousands of Renminbi.

#### 3 Basis of accounting and measurement

The Company's financial statements have been prepared on an accrual basis using the historical cost as the basis of measurement, except for financial assets/liabilities held at fair value through profit or loss, available-for-sale financial assets, investment properties and share-based payments that have been measured at fair value. If an asset is impaired, a provision for impairment loss of the asset is recognised in accordance with the relevant requirements.

## D Summary of Significant Accounting Policies and Accounting Estimates *(Continued)*

### 4 Foreign currency translation

The Company translates the amount of foreign currency transactions into its functional currency.

A foreign currency transaction is recorded, on initial recognition in the functional currency, by applying to the foreign currency amount the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the spot exchange rate at the balance sheet date. All exchange differences are recognised in the income statement. Foreign currency non-monetary items measured at historical cost continue to be translated at the spot exchange rates at the dates of the transactions. Non-monetary items measured at fair value in a foreign currency are translated using the spot exchange rates at the date when the fair value was determined. All exchange differences are recognised in the income statement.

### 5 Reverse repurchase and repurchase agreements

Assets sold under agreements to repurchase at a specific future date are not derecognised from the balance sheet. The corresponding proceeds are recognised on the balance sheet as “Repurchase agreements”. The difference between the sale price and the repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest method.

Conversely, assets purchased under agreements to resell at a specific future date are not recognised on the balance sheet. The corresponding cost is recognised on the balance sheet as a “Reverse repurchase agreements”. The difference between the purchase price and the resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

### 6 Financial assets

The Company classifies its financial assets into four categories: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value. In the case of a financial asset at fair value through profit or loss, transaction costs are charged to the income statement. For other financial assets, transaction costs are included in their initial recognition amounts.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and those designated as at fair value through profit or loss by management upon initial recognition. Financial assets classified as held for trading include those financial assets that meet one of the following conditions: 1) being acquired principally for the purpose of selling in the near term; 2) being part of a portfolio of identified financial instruments that are managed together and for which there is objective evidence of a recent pattern of short-term profit-taking; 3) derivative instruments unless they are designated and effective hedging instruments. After initial recognition, these financial assets are measured at their fair values. All related realised and unrealised gains or losses are included in the income statement.

A hybrid instrument can be designated as a financial asset or financial liability at fair value through profit or loss unless the embedded derivative does not significantly modify the cash flows of the hybrid instrument; or it is clear with little or no analysis when a similar hybrid instrument is considered that separation of the embedded derivative is prohibited.

A financial asset or financial liability may be designated, on initial recognition, as at fair value through profit or loss only when one of the following conditions is met:

- (1) the designation eliminates or significantly reduces a measurement or recognition inconsistency of the related gains or losses that would otherwise result from measuring assets or liabilities on different bases.
- (2) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, and information about the group is reported on that basis to the Company’s key management personnel. Formal documentation has been prepared with respect to such a risk management or investment strategy.
- (3) the hybrid instrument embedded with derivatives which are required to be separately accounted for.

#### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity date that the Company has the positive intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the held-to-maturity investments are derecognised or impaired, and through the amortisation process. If the Company has, during the current financial year, sold or reclassified (to available-for-sale financial assets) items of held-to-maturity investments, whose amount is significant in relation to the total amount of the held-to-maturity investments before the sale or reclassification, the Company shall reclassify the remaining portion of the held-to-maturity investments as available-for-sale investments, and in the current and the next two financial years, the Company shall not again classify any financial assets as held-to-maturity investments. However, sales or reclassifications under the following circumstances are exceptions to the above:

- (1) sales or reclassifications are so close to maturity or the financial asset’s call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset’s fair value.

## D Summary of Significant Accounting Policies and Accounting Estimates *(Continued)*

### 6 Financial assets *(Continued)*

#### Held-to-maturity investments *(Continued)*

(2) sales or reclassifications of the remaining portion of the financial asset occur after the Company has collected substantially all of the financial asset's original principal through scheduled payments or prepayments.

(3) sales or reclassifications are attributable to an isolated event that is beyond the Company's control and is non-recurring and could not have been reasonably anticipated by the Company.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method. Gains or losses are recognised in the income statement when the loans and receivables are derecognised or impaired, and through the amortisation process.

#### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated on initial recognition as available-for-sale or those financial assets that are not classified as other categories. After the initial recognition, available-for-sale financial assets are subsequently measured at fair value. Interest earned whilst holding available-for-sale financial assets is reported as interest income using the effective interest rate. Gains or losses arising from a change in the fair value of available-for-sale financial assets are recognised directly in owner's equity, except for impairment losses and foreign exchange gains and losses resulted from monetary financial assets, until the financial assets are derecognised, at which time the cumulative gains or losses previously recognised in owner's equity are removed from owner's equity and recognised in the income statement.

### 7 Impairment of financial assets

An assessment is made at each balance sheet date to determine whether there is evidence of impairment of financial assets (other than those at fair value through profit or loss) as a result of one or more events that occur after the initial recognition of those assets (an incurred "loss event") and whether that loss event has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments has been incurred, the carrying amount of the financial asset is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The amount of reduction is recognized as an impairment loss in profit or loss. Present value of estimated future cash flows is discounted at the financial asset's original effective interest rate and includes the value of any related collateral.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company.

If, subsequent to the recognition of an impairment loss on a financial asset carried at amortised cost, there is objective evidence of a recovery in value of the financial asset which can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed and recognised in the income statement. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

#### Financial assets carried at cost

If there is objective evidence that an impairment loss on a financial asset has been incurred, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The impairment loss on the financial asset shall not be reversed.

## D Summary of Significant Accounting Policies and Accounting Estimates *(Continued)*

### 7 Impairment of financial assets *(Continued)*

#### Available-for-sale financial assets

If an available-for-sale asset is impaired, the cumulative loss arising from the decline in fair value that had been recognised directly in owners' equity shall be removed from owners' equity and recognised in the income statement. The amount of the accumulated loss that is removed from owners' equity shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in the income statement. Impairment losses recognised for an investment in an equity instrument classified as available-for-sale shall not be reversed through the income statement.

### 8 Financial liabilities

The Company classifies its financial liabilities into financial liabilities at fair value through profit or loss, financial guarantee contracts, deposits and other financial liabilities.

#### Financial liabilities at fair value through profit or loss

The Company classifies its financial liabilities at fair value through profit or loss into financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss by management upon initial recognition. Gains or losses arising from changes in fair value are recognised in the income statement.

#### Financial guarantee contracts

The Company gives financial guarantees consisting of letters of credit, guarantees, and acceptances. Financial guarantee contracts are initially recognised at fair value, in "Other liabilities", being the premium received. The guarantee fee is amortised over the period of the contract and is recognised as fee and commission income. Subsequent to initial recognition, the Company's liability under each guarantee contract is measured at the higher of the initial fair value less cumulative amortisation, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the income statement.

#### Other financial liabilities

Except for financial liabilities at fair value through profit or loss and financial guarantee contracts, deposits and other financial liabilities are subsequently measured at amortised cost using the effective interest method.

### 9 Recognition and derecognition of financial instruments

A financial asset or a financial liability is recognised when the Company becomes a party to the contractual provisions of the financial instrument.

A financial asset is derecognised when one of the following conditions is met:

- the contractual rights to the cash flows from the financial asset expire;
- the financial asset has been transferred and the transfer qualifies for derecognition as set out below.

#### Transfer of financial assets

The Company transfers a financial asset in the following two alternative ways:

- (1) the Company transfers the contractual rights to receive the cash flows of the financial asset to another party;
- (2) the Company retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to the eventual recipient(s) in an arrangement that meets all of the following conditions:
  - (a) the Company's obligation to pay amounts to the eventual recipient(s) arises only when it has collected equivalent amounts from the original financial asset. Short-term advances by the Company with the right of full recovery of the amount lent plus accrued interest at market rates for bank loans of equivalent terms do not violate this condition.
  - (b) the Company is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipient(s) for the obligation to pay them cash flows.
  - (c) the Company has an obligation to remit any cash flows it collects on behalf of the eventual recipient(s) without material delay. In addition, the Company is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the intervening period between two consecutive payments, which are invested in accordance with the terms of the contract. Income earned on such investments (i.e. reinvesting the cash flows according to the terms of the contract) is passed to the eventual recipient(s) according to the contract terms.

When the Company transfers substantially all the risks and rewards of ownership of a financial asset to the transferee, the financial asset is derecognised. When the Company retains substantially all the risks and rewards of ownership of a financial asset, the financial asset is not derecognised.



## D Summary of Significant Accounting Policies and Accounting Estimates *(Continued)*

### 9 Recognition and derecognition of financial instruments *(Continued)*

#### Transfer of financial assets *(Continued)*

When the Company neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it accounts for the transaction as follows:

- (1) when the Company has not retained control of the financial asset, the financial asset is derecognised;
- (2) when the Company has retained control of the financial asset, the financial asset is recognised to the extent of the Company's continuing involvement in the transferred financial asset and an associated liability is recognised.

A financial liability is derecognised when the underlying present obligation is performed, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

### 10 Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

Certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains or losses recognised in the income statement.

### 11 Long-term equity investments

A long-term equity investment is measured initially at its investment cost.

Long-term investments are accounted for using the cost method if the Company can exercise control over the investee, or does not have joint control or significant influence over the investee and the investment is not quoted in an active market and its fair value cannot be reliably measured.

Under the cost method, a long-term equity investment is measured at its initial investment cost. Cash dividends or profit distributions declared by the investee is recognised as investment income in the current period. However, investment income recognised is limited to the amount distributed to it out of accumulated net profits of the investee arising after the investment was made. Any cash dividends or distributions received in excess of this amount are treated as a recovery of initial investment cost.

When the Company can exercise joint control or significant influence over the investee, a long-term equity investment is accounted for using the equity method.

Under the equity method, when the initial investment cost of a long-term equity investment exceeds the Company's interest in the fair values of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. When initial investment cost is less than the Company's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference is charged to the income statement for the current period, and the cost of the long-term equity investment is adjusted accordingly.

After acquiring a long-term equity investment, the Company recognises its share of the net profits or losses made by the investee as investment income or losses, and adjusts the carrying amount of the investment accordingly. The carrying amount of the investment is reduced by the portion of any profit distributions or cash dividends declared by the investee that is attributed to the Company. The Company shall discontinue recognising its share of net losses of the investee after the carrying amount of the long-term equity investment together with any long-term interest that in substance form part of the investor's net investment in the investee are reduced to zero, except to the extent that the Company has incurred obligations to assume additional losses. The Company shall adjust the carrying amount of the long-term investment for other changes in owners' equity of the investee (other than net profits or losses), and include the corresponding adjustment in equity. On disposal of the investment, any changes shall be transferred to the income statement on a pro-rated basis according to the proportion disposed of.

On disposal of a long-term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in the income statement.

For a long-term equity investment accounted for using the cost method and which is not quoted in an active market and its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The impairment loss on the financial asset shall not be reversed.

## D Summary of Significant Accounting Policies and Accounting Estimates *(Continued)*

### 12 Investment properties

Investment properties are properties held to earn rentals or for capital appreciation or both. The investment properties of the Company are buildings that are leased out. The Company adopts the fair value model for the measurement of investment properties which are not depreciated or amortised. At each period end, the carrying value of the investment properties is adjusted based on the fair value, and any difference between the carrying amount and the fair value is accounted for in the income statement.

For a transfer of owner-occupied property to investment property, the investment property is measured at its fair value at the date of transfer. If the fair value at the date of transfer is less than the original carrying amount, the difference is charged to the income statement. When the fair value at the date of transfer exceeds the original carrying amount, the difference is recognised as capital reserve in owners' equity. On disposal of an investment property, the amount that had been recognised in equity is transferred to the income statement.

For a transfer from investment property to owner-occupied property, its fair value at the date of transfer is regarded as the carrying amount of the owner-occupied property. The difference between the fair value and the original carrying amount is recognised in the income statement.

### 13 Fixed assets

#### Recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, or for administrative purposes; and have useful lives more than one accounting year.

A fixed asset is recognised only when it is probable that economic benefits associated with the asset will flow to the Company and the cost of the asset can be measured reliably.

Subsequent expenditures incurred for a fixed asset that meets the above conditions are included in the cost of the fixed asset, otherwise they are recognised in the income statement in the period in which they are incurred.

#### Measurement and depreciation of fixed assets

Fixed assets are initially measured at cost. All fixed assets are stated at cost less any accumulated depreciation and any impairment losses. The cost of an asset comprises the purchase price, related taxes, and any directly attributable expenditures of bringing the asset to working condition for its intended use, such as delivery and handling costs, installation costs and professional fees.

Depreciation is calculated using the straight-line method. The Company reasonably determines the useful lives and estimated net residual values of the fixed assets according to the natures and use patterns of the fixed assets as follows:

	Useful life	Estimated net residual value	Annual depreciation rate
Properties and buildings	30 years	1%	3.3%
Transportation vehicles	6 years	3%	16.2%
Computers	3 or 5 years	1%	33.0% or 19.8%
Electronic appliances	5 or 10 years	1%	19.8% or 9.9%
Owner-occupied property improvement	5 or 10 years	–	20.0% or 10.0%

The useful life and estimated net residual value of a fixed asset and the depreciation method applied are reviewed at each balance sheet date.

### 14 Construction in progress

Construction in progress represents costs incurred in the construction of fixed assets. Costs comprise direct costs incurred during the period of construction. Interest charged on related borrowings for the construction is capitalised and such capitalisation of interest ceases when the assets under construction are completed and are ready for their intended use. No capitalisation of interest is made if the cost incurred during the construction is from the Company's own fund.

The costs are transferred to fixed assets when the asset is ready for its intended use, and are depreciated in accordance with the related depreciation policy. Construction in progress is not depreciated.

## D Summary of Significant Accounting Policies and Accounting Estimates *(Continued)*

### 15 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance owned or controlled by the Company. The Company's intangible assets comprise the value of computer software.

Intangible assets are measured initially at cost. The Company analyses and assesses the useful life of an intangible asset on its acquisition. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Company.

When the asset is available for use, an intangible asset with a finite useful life is amortised over its useful life. The amortisation method selected reflects the pattern in which the asset's economic benefits are expected to be realised. If that pattern cannot be determined reliably, the straight-line method is used. An intangible asset with an indefinite useful life is not amortised.

The useful life and amortisation method for intangible assets with finite useful lives are reviewed at each balance sheet date. If the expected useful life of the asset or the amortisation method differs significantly from previous assessments, the amortisation period or amortisation method is changed accordingly.

### 16 Impairment provision of assets

For assets excluding financial assets and repossessed assets, the Company assesses impairment of assets as follows.

At each balance sheet date, the Company assesses whether there is any indication that assets may be impaired. If there is any indication that an asset may be impaired, a recoverable amount is estimated for the asset. For an asset with an indefinite useful life, the asset is tested for impairment at least at each financial year-end, irrespective of whether there is any indication of impairment.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The Company estimates the recoverable amount of an asset on an individual basis.

If the result of the recoverable amount calculation indicates the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is recognised as an impairment loss and charged to the income statement. A provision for impairment loss of the asset is recognised accordingly.

Once an impairment loss is recognised, it shall not be reversed in a subsequent period.

### 17 Repossessed assets

Repossessed assets are initially recognised at fair value. The difference between the initial fair value and the sum of the related loan principal, interest receivable and impairment provision is taken into the income statement. At the balance sheet date, the repossessed assets are measured at the lower of their carrying value and net realisable value. When the carrying value of the repossessed assets is higher than the net realisable value, a provision for the decline in value of repossessed assets is recognised in the income statement for the period.

### 18 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

#### Interest income and interest expense

For all financial instruments measured at amortised cost and interest-bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate. The change in carrying amount is recorded as interest income or expense.

#### Fee and commission income

Fee and commission income is recognised when the services have been rendered and the proceeds can be reasonably estimated.

## D Summary of Significant Accounting Policies and Accounting Estimates *(Continued)*

### 19 Income tax

Income tax comprises current tax and movements in deferred tax balances.

Current tax is the amount of income taxes payable in respect of the taxable profit for a period. Taxable profit is the profit for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities.

Deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax assets also arise from unused tax losses and unused tax credits.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- i the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: the transaction is not a business combination; and at the time of the transaction, it affects neither accounting profit nor taxable profit (or deductible loss);
- ii for taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly controlled enterprises, the timing of the reversal of the temporary difference can be controlled; and it is probable that the temporary difference will not reverse in the foreseeable future.

For deductible temporary differences, the carryforward of unused deductible losses and tax credits, the Company recognised the corresponding deferred tax asset to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the deductible losses and tax credits can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that: 1) the transaction is not a business combination; 2) at the time of the transaction, it affects neither accounting profit nor taxable profit (or deductible loss).

For deductible temporary differences arising from investments in subsidiaries, associates, and interests in jointly controlled enterprises, the corresponding deferred tax asset is recognised, to the extent that, it is probable that: the temporary difference will reverse in the foreseeable future; and taxable profits will be available in the future, against which the temporary difference can be utilized.

At the balance sheet date, deferred tax assets and deferred tax liabilities measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the balance sheet date, to recover the assets or settle the carrying amounts of its assets and liabilities.

At the balance sheet date, the Company reviews the carrying amount of a deferred tax asset. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available in future periods to allow the benefit of the deferred tax asset to be utilized. Any such reduction in the amount is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current and deferred tax of the Company is recognised as income or an expense and included in the income statement for the current period, except to the extent that the tax arises from a business combination; or a transaction or event which is recognised directly in owner's equity.

## D Summary of Significant Accounting Policies and Accounting Estimates *(Continued)*

### 20 Employee benefits

#### Short term employee benefits

Salaries and bonuses, social security contributions and other short term employee benefits are accrued in the period in which services are rendered by the employees of the Company.

#### Defined contribution plans

According to the statutory requirements in Mainland China, the Company is required to make contributions to the pension and insurance schemes that are separately administered by the local government authorities. Contributions to these plans are recognised in the income statement as incurred.

#### Supplementary retirement benefits

Certain employees of the Company in Mainland China can enjoy supplementary retirement benefits after retirement. These benefits are unfunded. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised in the income statement in the period in which they occur.

#### Share-based payment

The Company grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees or other parties.

The cost of cash-settled transactions is measured initially at fair value at the grant date using an appropriate pricing model taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date, with changes in fair value recognised in the income statement.

### 21 Definition of cash equivalents

Cash equivalents comprise an unrestricted balance with the Central Bank with original maturity of three months or less, amounts due from banks and other financial institutions with original maturity of three months or less, reverse repurchase agreements with original maturity of three months or less, and short term highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value, and which are within three months of maturity when acquired.

### 22 Related parties

If a party has the power to control, jointly control or exercise significant influence over another party in making financial and operating decisions, they are regarded related parties. Two or more parties are also regarded as related parties if they are subject to control, joint control or significant influence from the same party.

Enterprises are not regarded as related parties simply because they are under common control from the state, if no other related party relationships exist between them.

### 23 Fiduciary activities

Where the Company acts in a fiduciary capacity such as nominee, trustee or agent, assets arising thereon together with the related undertakings to return such assets to customers are excluded from these financial statements.

### 24 Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the period of the leases.

### 25 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events but is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

## D Summary of Significant Accounting Policies and Accounting Estimates *(Continued)*

### 26 Provisions

An obligation related to a contingency is recognised as a provision when all of the following conditions are satisfied:

- the obligation is a present obligation of the Company;
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. The Company reviews the carrying amount of a provision at the balance sheet date. When there is clear evidence that the carrying amount of a provision does not reflect the current best estimate, the carrying amount is adjusted to the current best estimate.

### 27 Trade date accounting

Except for loans and receivables, all regular way purchases and sales of financial assets are recognised on the trade date, that is, the date on which the Company commits to purchase or sell the asset. A regular way purchase and sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

### 28 Offsetting

Financial assets and liabilities are offset only when the Company has a legally enforceable right to offset the recognised amounts and both parties of the transaction intend to settle on a net basis.

### 29 Significant accounting judgements and estimates

In the process of applying the Company's accounting policies, management has made assumptions of impacts arising from uncertain future events on the financial information. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period are discussed below. Apart from those assumptions and estimations, judgements are also made and are set out below.

#### Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and a fixed maturity are classified as held-to-maturity investments when the Company has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as held-to-maturity investment, significant management judgement is required. If the Company fails to correctly assess its intention and ability to hold the investments to maturity and the Company sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Company shall classify the whole held-to-maturity investment portfolio as available-for-sale.

#### Impairment losses of loans and advances

The Company determines periodically whether there is any objective evidence that an impairment loss on loans and advances has been incurred. If any such evidence exists, the Company assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

#### Income tax

Determining income tax provisions requires the Company to estimate the future tax treatment of certain transactions. The Company carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

#### Fair value of financial instruments

When there is an active market for a financial instrument, the Company uses the quoted price in the active market to establish the fair value of the financial instrument. If the market for a financial instrument is not active, the Company establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable willing parties, if available, reference to the current fair value of another instrument that is substantially the same, and a discounted cash flow analysis. To the extent practicable, the valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on areas such as credit risk (both the Company's and the counterparty's), volatility and correlation. Changes in assumptions about these factors could affect the reported fair values of financial instruments.



## D Summary of Significant Accounting Policies and Accounting Estimates (Continued)

### 30 Taxes

Major taxes and related tax rates applicable to the Company are as follows:

TAX	Basis of tax assessment	Tax rate
Business tax	Business income (not including interest income from transactions with financial institutions)	5%
City Maintenance and Construction Tax	Amount of business income tax	1% to 7%
Corporate Income Tax	Amount of taxable income included: offshore business profit	10%, 15% or 33% 10%

Approved by Document Guo Shui Han [2004] No. 1113, all branches of the Company are subject to payment of business income tax on a consolidated basis instead of on an on-the-spot basis in advance. The headquarters of the Company calculates and pays the business income tax in a collective manner.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The income tax rate applicable to the branches in Shenzhen, Zhuhai and Haikou will progressively increase to the tax rate of 25% in five years. The income tax rate applicable to the branches in other regions will decrease from 33% to 25% effective from 1 January 2008. The change in net deferred tax asset because of the change in corporate income tax rate has been measured and recognised in the income tax expense of the year.

### 31 First-time adoption of Accounting Standards for Business Enterprises

As stated in the Note B, the Company applies the Accounting Standards for Business Enterprises ("ASBEs") which were promulgated by MOF in 2006, on 1 January 2007. The financial statements have been adjusted retrospectively and restated for the related accounting years in accordance with ASBE No. 38 – First-time adoption of Accounting Standards for Business Enterprises and China Accounting Standards Interpretation No. 1.

The cumulative effect of the first-time adoption of the ASBEs is as follows:

In RMB'000	Unappropriated profit		Owners' equity	
	2007	2006	2007	2006
Opening balance before retrospective adjustments	745,929	773,314	6,474,463	5,054,411
Retrospective adjustments				
Investment properties (Note 1)	171,142	38,966	171,142	38,966
Financial guarantee contracts (Note 2)	(32,996)	(28,181)	(32,996)	(28,181)
Effect of deferred income tax	(15,569)	2,751	(15,569)	2,751
Opening balance after retrospective adjustments	868,506	786,850	6,597,040	5,067,947

The effect of the first-time adoption of the ASBEs on the net profit for the year ended 31 December 2006 is as follows:

In RMB'000	2006
Opening balance before retrospective adjustments	1,302,906
Retrospective adjustments	
Investment properties (Note 1)	132,176
Financial guarantee contracts (Note 2)	(4,815)
Effect of deferred income tax	(18,320)
Opening balance after retrospective adjustments	1,411,947

Notes: 1. In accordance with the ASBEs, the Company adopts the fair value model for the subsequent measurement of investment properties.

2. After initial recognition, financial guarantee contracts are subsequently measured at the higher of the following two amounts:

- the amount determined in accordance with ASBE No. 13 – Contingencies;
- the amount initially recognised less cumulative amortisation recognised in accordance with the principles set out in ASBE No. 14 – Revenue.

There is no difference between the above retrospective adjusted profit for the year ended 31 December 2006 and that presented if the ASBEs had been fully adopted at the beginning of the preceding year.

## E Notes to Key Items in the Financial Statements

### 1 Cash on hand and due from the Central Bank

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Cash on hand	<b>1,062,241</b>	909,080
Statutory reserve with the Central Bank – RMB	<b>28,894,261</b>	14,693,303
Statutory reserve with the Central Bank – foreign currency	<b>327,038</b>	204,109
Unrestricted balance with the Central Bank	<b>10,436,341</b>	10,475,761
Other deposits with the Central Bank – fiscal deposits	<b>6,506</b>	5,923
<b>Total</b>	<b>40,726,387</b>	26,288,176

Based on the related RMB and foreign currency deposits, the Company places respective statutory reserves with the Central Bank in accordance with the requirements from the People's Bank of China. These reserve deposits are not available for use in the Company's daily operations.

Fiscal deposits represent the amounts received from government-related bodies that are required to be deposited with the Central Bank according to the relevant regulations.

### 2 Placement of deposits with other financial institutions

#### Analysed by location and counterparty

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Domestic banks	<b>2,273,251</b>	2,341,711
Other domestic financial institutions	<b>68,150</b>	76,762
Overseas banks	<b>1,739,075</b>	729,955
Subtotal	<b>4,080,476</b>	3,148,428
Less: Impairment provision (Note E.36)	<b>(66,786)</b>	(67,425)
<b>Total</b>	<b>4,013,690</b>	3,081,003

As at 31 December 2006, included in placement of deposits with other financial institutions are amounts of RMB 19,722 thousand Yuan that are frozen as a result of bills in dispute. The corresponding balance as at 31 December 2007 was nil.

As at 31 December 2006, included in placement of deposits with other financial institutions are amounts of RMB 211,016 thousand Yuan that were pledged for certain loans. The corresponding balance as at 31 December 2007 was nil.

## E Notes to Key Items in the Financial Statements (Continued)

### 3. Funds loaned to other financial institutions

#### Analysed by location and counterparty

<i>In RMB'000</i>	31 December 2007	31 December 2006
Domestic banks	687,940	808,553
Domestic financial companies	48,550	49,000
Domestic trust investment companies	80,511	161,546
Overseas banks	2,135,552	2,675,062
Subtotal	2,952,553	3,694,161
Less: Impairment provision (Note E.36)	(309,897)	(324,985)
<b>Total</b>	<b>2,642,656</b>	<b>3,369,176</b>

### 4 Financial assets/financial liabilities at fair value through profit or loss

#### Financial assets at fair value through profit or loss

<i>In RMB'000</i>	31 December 2007	31 December 2006
Bonds held for trading	276,802	37,566
Financial assets designated at fair value through profit or loss	1,200,823	389,792
<b>Total</b>	<b>1,477,625</b>	<b>427,358</b>
<b>Bond investments analysed by issuer</b>		
Governments and the Central Bank	816,669	-
Policy banks	616,136	-
Other banks and non-bank financial institutions	44,820	427,358
<b>Total</b>	<b>1,477,625</b>	<b>427,358</b>

#### Financial liabilities at fair value through profit or loss

<i>In RMB'000</i>	31 December 2007	31 December 2006
Structured deposits held for trading	-	37,566
Financial liabilities designated at fair value through profit or loss	1,246,657	446,185
<b>Total</b>	<b>1,246,657</b>	<b>483,751</b>

In the opinion of management, there are no significant restrictions on realizing the financial assets at fair value through profit or loss.

As at 31 December 2007, the Company designated financial liabilities of RMB 1,246,657 thousand Yuan (31 December 2006: RMB 446,185 thousand Yuan) as at fair value through profit or loss upon their initial recognition. The amount of change in their total fair value which is not attributable to changes in a benchmark interest rate is not significant. The difference between the carrying amount and the amount that the Company would be contractually required to pay at maturity to the holder of these financial liabilities is RMB 31,506 thousand Yuan (31 December 2006: RMB 7,617 thousand Yuan).

## E Notes to Key Items in the Financial Statements (Continued)

### 5 Derivative financial instruments

A derivative is a financial instrument, the value of which is derived from the value of another “underlying” financial instrument, an index or some other variables. Typically, an “underlying” financial instrument is a share, commodity or bond price, an index value or an exchange or interest rate. The Company uses derivative financial instruments such as forward contracts, futures contracts, swaps and options.

The notional amount of a derivative represents the amount of underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Company but does not reflect the risk.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm’s length transaction.

At each balance sheet date, the Company has positions in the following types of derivatives:

<i>In RMB'000</i>	31 December 2007					
	Notional amounts with remaining lives of				Fair value	
	Up to 3 months	3 months to 1 year	1 to 5 years	Total	Assets	Liabilities
<b>Foreign currency derivative instruments</b>						
Currency forwards contracts	5,847,222	5,077,180	–	10,924,402	166,122	(139,604)
<b>Interest rate derivative instruments</b>						
Interest rate swap contracts	–	–	170,000	170,000	–	(1,553)
<b>Equity derivative instruments</b>						
Equity option contracts	805,824	224,966	1,531,691	2,562,481	71,417	(76,149)
Equity swap contracts	–	482,036	–	482,036	16,410	–
<b>Other derivative instruments</b>	–	1,482,337	–	1,482,337	37,867	(37,867)
<b>Total</b>	<b>6,653,046</b>	<b>7,266,519</b>	<b>1,701,691</b>	<b>15,621,256</b>	<b>291,816</b>	<b>(255,173)</b>

<i>In RMB'000</i>	31 December 2006					
	Notional amounts with remaining lives of				Fair value	
	Up to 3 months	3 months to 1 year	1 to 5 years	Total	Assets	Liabilities
<b>Foreign currency derivative instruments</b>						
Currency forwards contracts	–	2,193,112	1,963,973	4,157,085	15,068	(13,079)
<b>Interest rate derivative instruments</b>						
Interest rate swap contracts	–	448,257	22,611	470,868	3	(7,344)
<b>Equity derivative instruments</b>						
Equity option contracts	–	–	224,966	224,966	7,692	(7,692)
<b>Total</b>	<b>–</b>	<b>2,641,369</b>	<b>2,211,550</b>	<b>4,852,919</b>	<b>22,763</b>	<b>(28,115)</b>

As at 31 December 2007 and 31 December 2006, no derivatives were designated as hedging instruments.

## E Notes to Key Items in the Financial Statements (Continued)

### 6 Reverse repurchase agreements

#### Analysed by counterparty

<i>In RMB'000</i>	31 December 2007	31 December 2006
Banks	22,499,511	10,392,406
Non-bank financial institutions	11,299,963	906,912
Subtotal	33,799,474	11,299,318
Less: Impairment provisions (Note E.36)	(30,549)	(27,550)
<b>Total</b>	<b>33,768,925</b>	<b>11,271,768</b>

#### Analysed by collateral

<i>In RMB'000</i>	31 December 2007	31 December 2006
Securities	551,722	2,595,105
Bills	22,470,502	931,713
Loans	10,777,250	7,772,500
Subtotal	33,799,474	11,299,318
Less: Impairment provisions (Note E.36)	(30,549)	(27,550)
<b>Total</b>	<b>33,768,925</b>	<b>11,271,768</b>

#### Fair value of collateral

Under certain reverse repurchase agreements, the Company has held collateral that is permitted to be sold or re-pledged in the absence of default by the owners of the collateral. At the balance sheet date, the fair values of the collateral held on such terms are as follows:

<i>In RMB'000</i>	31 December 2007		31 December 2006	
	Amount of reverse repurchase agreements	Fair value of collateral	Amount of reverse repurchase agreements	Fair value of collateral
Securities	-	-	1,600,000	1,641,954
Bills	11,425,106	11,425,106	392,438	392,438
Loans	10,777,250	10,777,250	6,567,000	6,567,000
<b>Total</b>	<b>22,202,356</b>	<b>22,202,356</b>	<b>8,559,438</b>	<b>8,601,392</b>

Of which, the above fair value of collateral included bills amounting to RMB 1,393,049 thousand Yuan (31 December 2006: Nil) that were re-pledged at year end. The Company has an obligation to return such collateral.

### 7 Interest receivable

<i>In RMB'000</i>	Balance at beginning of the year	Increase during the year	Collection during the year	Balance at end of the year
Interest receivable on bond investments	343,587	878,580	(673,687)	548,480
Interest receivable on loans and amounts due from other financial institutions	332,113	16,224,203	(15,978,424)	577,892
<b>Total</b>	<b>675,700</b>	<b>17,102,783</b>	<b>(16,652,111)</b>	<b>1,126,372</b>

## Notes to the Financial Statements

**E Notes to Key Items in the Financial Statements** (Continued)**8 Loans and advances****i Analysed by corporations and individuals**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
<b>Loans and advances to corporations</b>		
Loans	<b>150,490,884</b>	126,797,390
Discounted bills	<b>7,780,001</b>	16,473,659
Subtotal	<b>158,270,885</b>	143,271,049
<b>Loans and advances to individuals</b>		
Credit cards	<b>2,010,827</b>	544,134
Residential mortgages	<b>59,297,346</b>	35,821,105
Others	<b>2,234,540</b>	2,545,659
Subtotal	<b>63,542,713</b>	38,910,898
Total loans and advances	<b>221,813,598</b>	182,181,947
Less: Loan impairment provisions (Note E.8.vi)	<b>(6,023,964)</b>	(6,937,141)
<b>Loans and advances, net</b>	<b>215,789,634</b>	175,244,806

As at 31 December 2006, loans and advances to customers included loans amounting to RMB 693,912 thousand Yuan that were pledged under repurchase agreements. Furthermore, as at 31 December 2006, discounted bills amounting to RMB 460,530 thousand Yuan were pledged under repurchase agreements. The corresponding balances as at 31 December 2007 were nil.

**ii Analysed by industry**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Agriculture, husbandry and fisheries	<b>506,927</b>	612,101
Extraction (Heavy industry)	<b>2,812,800</b>	2,136,750
Manufacturing (Light industry)	<b>55,407,762</b>	46,632,865
Energy	<b>7,832,400</b>	9,075,773
Transportation, storage and communication	<b>12,663,872</b>	11,652,194
Commercial	<b>26,296,722</b>	27,506,812
Real estate	<b>14,411,307</b>	12,742,637
Service, technology, culture and sanitary industries	<b>29,969,369</b>	24,628,229
Construction	<b>7,340,077</b>	7,290,741
Others	<b>64,572,362</b>	39,903,845
Total loans and advances	<b>221,813,598</b>	182,181,947
Less: Loan impairment provisions (Note E.8.vi)	<b>(6,023,964)</b>	(6,937,141)
<b>Loans and advances, net</b>	<b>215,789,634</b>	175,244,806

**iii Analysed by types of collateral held or other credit enhancements**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Unsecured	<b>31,864,556</b>	25,312,952
Guaranteed	<b>62,376,974</b>	58,903,914
Secured by collateral	<b>119,792,067</b>	81,491,422
of which: secured by mortgages	<b>89,703,166</b>	59,026,322
secured by monetary assets	<b>30,088,901</b>	22,465,100
Subtotal	<b>214,033,597</b>	165,708,288
Discounted bills	<b>7,780,001</b>	16,473,659
Total loans and advances	<b>221,813,598</b>	182,181,947
Less: Loan impairment provisions (Note E.8.vi)	<b>(6,023,964)</b>	(6,937,141)
<b>Loans and advances, net</b>	<b>215,789,634</b>	175,244,806



## E Notes to Key Items in the Financial Statements (Continued)

### 8 Loans and advances (Continued)

#### iv Ageing analysis of past due loans

In RMB'000	31 December 2007				
	Overdue by 1 to 90 days, inclusive	Overdue by 90 days to 1 year, inclusive	Overdue by 1 to 3 years, inclusive	Overdue by more than 3 years	Total
Unsecured	239,346	46,310	100,395	25,132	411,183
Guaranteed	120,429	126,920	2,527,372	3,996,214	6,770,935
Secured by collateral	2,265,619	836,882	1,449,149	2,724,078	7,275,728
of which: secured by mortgages	1,977,097	559,370	1,029,084	1,881,857	5,447,408
secured by monetary assets	288,522	277,512	420,065	842,221	1,828,320
<b>Total</b>	<b>2,625,394</b>	<b>1,010,112</b>	<b>4,076,916</b>	<b>6,745,424</b>	<b>14,457,846</b>

In RMB'000	31 December 2006				
	Overdue by 1 to 90 days, inclusive	Overdue by 90 days to 1 year, inclusive	Overdue by 1 to 3 years, inclusive	Overdue by more than 3 years	Total
Unsecured	181,290	40,501	20,466	66,785	309,042
Guaranteed	228,442	584,591	4,206,377	4,680,913	9,700,323
Secured by collateral	1,788,730	714,232	2,020,575	2,071,676	6,595,213
of which: secured by mortgages	1,579,564	348,521	1,302,454	1,721,720	4,952,259
secured by monetary assets	209,166	365,711	718,121	349,956	1,642,954
<b>Total</b>	<b>2,198,462</b>	<b>1,339,324</b>	<b>6,247,418</b>	<b>6,819,374</b>	<b>16,604,578</b>

Overdue loans refer to the loans with either principal or interest being overdue by one day or more.

#### v Analysed by geographical region

In RMB'000	31 December 2007	31 December 2006
	Southern China	78,390,451
Eastern China	78,066,203	62,993,976
Northern and north-eastern China	49,966,780	41,675,895
South-western China	14,360,528	10,860,686
Offshore businesses	1,029,636	992,459
Total loans and advances	221,813,598	182,181,947
Less: Loan impairment provisions (Note E.8.vi)	(6,023,964)	(6,937,141)
<b>Loans and advances, net</b>	<b>215,789,634</b>	<b>175,244,806</b>

#### vi Movements of the impairment provisions for loans and advances

In RMB'000	2007			2006		
	Individual	Collective	Total	Individual	Collective	Total
Balance at beginning of the year	6,452,271	484,870	6,937,141	5,954,274	278,278	6,232,552
Charge for the year	1,380,948	565,295	1,946,243	1,654,812	208,907	1,863,719
Amounts written off	(2,202,225)	(99,756)	(2,301,981)	(561,641)	(2,315)	(563,956)
Reversal for the year						
Recovery of loans written off previously	34,061	–	34,061	2,398	–	2,398
Unwinding of discounts of provisions for impaired loans and advances	(518,592)	–	(518,592)	(560,421)	–	(560,421)
Exchange difference	(72,908)	–	(72,908)	(37,151)	–	(37,151)
<b>Balance at end of the year (Note E.36)</b>	<b>5,073,555</b>	<b>950,409</b>	<b>6,023,964</b>	<b>6,452,271</b>	<b>484,870</b>	<b>6,937,141</b>

## Notes to the Financial Statements

**E Notes to Key Items in the Financial Statements** (Continued)**9 Available-for-sale financial assets**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
<b>Bond investments analysed by issuer</b>		
Governments and the Central Bank	<b>10,733,081</b>	11,688,471
Policy banks	<b>6,621,821</b>	6,050,429
Other banks and non-bank financial institutions	<b>302,851</b>	234,986
Corporations	<b>88,522</b>	–
Total bond investments	<b>17,746,275</b>	17,973,886
Less: Impairment provisions (Note E.36)	<b>(30,000)</b>	–
Bond investments, net	<b>17,716,275</b>	17,973,886
Equity investments	<b>134,617</b>	78,456
<b>Total</b>	<b>17,850,892</b>	18,052,342

**10 Held-to-maturity investments**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
<b>Bond investments analysed by issuer</b>		
Governments and the Central Bank	<b>9,508,400</b>	10,088,592
Policy banks	<b>5,738,760</b>	6,409,398
Other banks and non-bank financial institutions	<b>319,472</b>	735,885
Corporations	<b>344,854</b>	314,318
<b>Total</b>	<b>15,911,486</b>	17,548,193
<b>Fair value</b>	<b>15,330,545</b>	17,439,496

As 31 December 2007, included in the bond investments are amounts of RMB 1,124,046 thousand Yuan (31 December 2006: RMB 2,864,200 thousand Yuan) and RMB 14,555,660 thousand Yuan (31 December 2006: Nil) that were pledged for certain loan guarantee contracts and repurchase agreements, respectively.

There are no changes in the assessment of the Company's intention and ability to hold the investments to maturity.

**11 Receivables – bond investments**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
PBOC bills	<b>13,450,000</b>	–

The PBOC bills are financial assets with fixed or determinable payments that are not quoted in an active market.

## E Notes to Key Items in the Financial Statements (Continued)

### 12 Long-term equity investments

NAME OF INVESTEE <i>In RMB'000</i>	31 December 2007	31 December 2006
Shenzhen Yuan Sheng Industrial Co., Ltd. (Note)	507,348	507,348
China UnionPay Co., Ltd.	50,000	50,000
Gintian Industry (Group) Co., Ltd.	9,662	9,662
Hainan Pearl River Holdings Co., Ltd.	9,650	9,650
Hainan Wuzhou Travel Co., Ltd.	5,220	5,220
Meizhou Polyester (Group) Co.	1,100	1,100
Shenzhen Central South China Industrial Co.	2,500	2,500
Hainan Junhe Travel Co., Ltd.	2,800	2,800
Guangdong Sanxing Enterprises (Group) Co., Ltd.	500	500
Hainan Baiyunshan Co., Ltd.	1,000	1,000
Hainan Saige Co., Ltd.	1,000	1,000
Hainan First Investment Co., Ltd.	500	500
Hainan Zhonghailian Real Estate Co., Ltd.	1,000	1,000
Shenzhen Jiafeng Textile Industrial Co., Ltd.	16,725	16,725
SWIFT	230	230
Macat Optics & Electronics Co., Ltd.	10,000	10,000
Yong An Property Insurance Co., Ltd.	67,000	67,000
Wuhan Steel Electricity Co., Ltd.	32,175	32,175
Sun Securities Co., Ltd.	4,283	-
Total	722,693	718,410
Less: Impairment provision (Note E.36)	(470,745)	(470,745)
<b>Long-term equity investments, net</b>	<b>251,948</b>	<b>247,665</b>

Note: In the opinion of management, Shenzhen Yuan Sheng Industrial Co., Ltd. ("Yuan Sheng") is in the process of disposing of its assets and its financial impact to the Company's overall financial position is not material. Accordingly, the financial statements of Yuan Sheng have not been consolidated into the financial statements of the Company.

### 13 Investment properties

<i>In RMB'000</i>	31 December 2007	31 December 2006
Balance at beginning of the reported year	460,656	342,114
Disposals during the reported year	(25,251)	-
Fair value changes recognised in the income statement	42,733	118,542
Transferred to owner-occupied properties during the reported year	(37,040)	-
<b>Balance at end of the year</b>	<b>441,098</b>	<b>460,656</b>

The Company's investment properties are mainly properties and buildings, which are rented to third parties in the form of operating leasing. The investment properties are situated in locations where there are active property markets and the fair value of the investment properties can be reliably determinable on a continuing basis. Accordingly, management decided to adopt the fair value model for subsequent measurement of the investment properties, which are valued by independent professional valuers on, at least, an annual basis. The valuation as at 31 December 2007 was performed by Shenzhen Guozi Land and Real Estate Valuation Co., Ltd. In connection with this, the valuation was carried out by qualified persons who are members of the Shenzhen Institute of Real Estate Appraisers. Certain investment properties were transferred to owner-occupied properties mainly because the rental agreements of these properties expired during the year.

The gross rental income earned from the investment properties during the year amounted to RMB 45,377 thousand Yuan (2006: RMB 39,125 thousand Yuan). The total direct operating expense (including repairs and maintenance expenses) for the investment properties, with or without generating rental income during the year, was RMB 3,284 thousand Yuan (2006: RMB 3,204 thousand Yuan).

## Notes to the Financial Statements

**E Notes to Key Items in the Financial Statements** (Continued)**14 Fixed assets**

<i>In RMB'000</i>	2007				
	Balance at beginning of the year	Addition	Transfer from construction in progress	Subtraction	Balance at end of the year
<b>At cost</b>					
Properties and buildings	1,518,063	53,708	–	(35,565)	1,536,206
Transportation vehicles	218,195	6,535	–	(129,495)	95,235
Computers	601,519	134,271	1,114	(35,972)	700,932
Electronic appliances	269,035	49,125	10,157	(20,685)	307,632
Owner-occupied property improvement	301,766	2,489	25,139	(10,549)	318,845
<b>Total</b>	<b>2,908,578</b>	<b>246,128</b>	<b>36,410</b>	<b>(232,266)</b>	<b>2,958,850</b>
<b>Accumulated depreciation</b>					
Properties and Buildings	373,005	51,728	–	(11,657)	413,076
Transportation vehicles	171,586	17,321	–	(115,569)	73,338
Computers	413,418	83,560	–	(25,849)	471,129
Electronic appliances	182,440	32,609	–	(11,309)	203,740
Owner-occupied property improvement	225,340	21,434	–	(3,485)	243,289
<b>Total</b>	<b>1,365,789</b>	<b>206,652</b>	<b>–</b>	<b>(167,869)</b>	<b>1,404,572</b>
<b>Net book value</b>	<b>1,542,789</b>				<b>1,554,278</b>

<i>In RMB'000</i>	2006				
	Balance at beginning of the year	Addition	Transfer from construction in progress	Subtraction	Balance at end of the year
<b>At cost</b>					
Properties and buildings	1,831,611	36,517	–	(350,065)	1,518,063
Transportation vehicles	211,994	9,878	–	(3,677)	218,195
Computers	560,923	64,331	99	(23,834)	601,519
Electronic appliances	238,404	30,857	3,566	(3,792)	269,035
Owner-occupied property improvement	290,337	6,035	5,487	(93)	301,766
<b>Total</b>	<b>3,133,269</b>	<b>147,618</b>	<b>9,152</b>	<b>(381,461)</b>	<b>2,908,578</b>
<b>Accumulated depreciation</b>					
Properties and Buildings	342,393	47,045	–	(16,433)	373,005
Transportation vehicles	146,674	28,392	–	(3,480)	171,586
Computers	375,364	60,246	–	(22,192)	413,418
Electronic appliances	149,631	35,576	–	(2,767)	182,440
Owner-occupied property improvement	198,399	26,941	–	–	225,340
<b>Total</b>	<b>1,212,461</b>	<b>198,200</b>	<b>–</b>	<b>(44,872)</b>	<b>1,365,789</b>
<b>Net book value</b>	<b>1,920,808</b>				<b>1,542,789</b>

As at 31 December 2007, the original cost and net book value of properties and buildings amounting to RMB 130,831 thousand Yuan (31 December 2006: RMB 181,058 thousand Yuan) and RMB 87,453 thousand Yuan (31 December 2006: RMB 128,870 thousand Yuan), respectively are of no registration certificates of property right, but are in use by the Company.

## E Notes to Key Items in the Financial Statements (Continued)

### 15 Deferred tax assets/deferred tax liabilities

<i>In RMB'000</i>	2007			
	Balance at beginning of the year	Recognised in the income statement	Recognised directly in equity	Balance at end of the year
<b>Deferred tax assets</b>				
Impairment provisions	1,002,644	(29,088)	–	973,556
Others	13,286	(3,853)	11,400	20,833
Subtotal	1,015,930	(32,941)	11,400	994,389
<b>Deferred tax liabilities</b>				
Tax losses deducted against taxable profits of different tax rate	(211,652)	157,517	–	(54,135)
Others	(51,016)	(5,812)	12,419	(44,409)
Subtotal	(262,668)	151,705	12,419	(98,544)
<b>Total</b>	<b>753,262</b>	<b>118,764</b>	<b>23,819</b>	<b>895,845</b>

<i>In RMB'000</i>	2006			
	Balance at beginning of the year	Recognised in the income statement	Recognised directly in equity	Balance at end of the year
<b>Deferred tax assets</b>				
Impairment provisions	1,000,889	1,755	–	1,002,644
Others	8,666	3,156	1,464	13,286
Subtotal	1,009,555	4,911	1,464	1,015,930
<b>Deferred tax liabilities</b>				
Tax losses deducted against taxable profits of different tax rate	(235,049)	23,397	–	(211,652)
Others	(5,914)	(30,087)	(15,015)	(51,016)
Subtotal	(240,963)	(6,690)	(15,015)	(262,668)
<b>Total</b>	<b>768,592</b>	<b>(1,779)</b>	<b>(13,551)</b>	<b>753,262</b>

### 16 Other assets

#### i Analysed by nature

<i>In RMB'000</i>	31 December 2007	31 December 2006
Prepayments	93,963	80,080
Prepaid legal expenses	62,664	71,651
Long-term deferred expenses	276,758	278,911
Repossessed assets (Note E.16.ii)	807,175	885,396
Construction in progress	10,809	9,521
Receivable of exercise of warrants	789,961	–
Others	130,910	160,240
<b>Total</b>	<b>2,172,240</b>	<b>1,485,799</b>

**E Notes to Key Items in the Financial Statements** (Continued)**16 Other assets** (Continued)**ii Repossessed assets**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Land, properties and buildings	<b>983,027</b>	1,049,994
Others	<b>22,291</b>	24,940
Total	<b>1,005,318</b>	1,074,934
Less: Provision for decline in value (Note E.36)	<b>(198,143)</b>	(189,538)
<b>Net value of repossessed assets</b>	<b>807,175</b>	885,396

During the year, the Company disposed of repossessed assets with their gross carrying value amounting to RMB 175,270 thousand Yuan (2006: RMB 62,597 thousand Yuan). The Company plans to dispose of the repossessed assets through auctions, bidding or transfers in future.

**17 Placement of deposits from other financial institutions**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Domestic banks	<b>16,789,193</b>	6,701,964
Domestic non-bank financial institutions	<b>15,599,569</b>	10,367,280
<b>Total</b>	<b>32,388,762</b>	17,069,244

**18 Funds borrowed from other financial institutions**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Domestic banks	<b>2,640,297</b>	–

**19 Repurchase agreements**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
<b>Analysed by collateral</b>		
Securities	<b>14,110,800</b>	–
Bills	<b>2,356,782</b>	460,530
Loans	–	280,480
<b>Total</b>	<b>16,467,582</b>	741,010

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
<b>Analysed by counterparty</b>		
Banks	<b>11,099,633</b>	460,530
Non-bank financial institutions	<b>5,367,949</b>	280,480
<b>Total</b>	<b>16,467,582</b>	741,010

**20 Customer deposits**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Current deposits		
Corporate	<b>80,950,179</b>	66,786,638
Individuals	<b>16,518,537</b>	14,528,101
Subtotal	<b>97,468,716</b>	81,314,739
Fixed deposits		
Corporate	<b>76,783,023</b>	58,877,218
Individuals	<b>24,371,478</b>	20,828,590
Subtotal	<b>101,154,501</b>	79,705,808
Guarantee deposits	<b>74,801,665</b>	63,665,947
Fiscal deposits	<b>6,717,154</b>	6,453,419
Inward and outward remittances	<b>1,134,945</b>	1,066,415
<b>Total</b>	<b>281,276,981</b>	232,206,328



## E Notes to Key Items in the Financial Statements (Continued)

### 21 Employee benefits payable

<i>In RMB'000</i>	2007			
	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year
Salary, bonus and allowances	453,633	1,599,861	(1,347,390)	706,104
including: Cash-settled share-based payments	9,000	33,800	–	42,800
Social insurance and staff welfare	160,995	364,568	(306,256)	219,307
Housing provident funds	–	69,842	(69,842)	–
Staff union and training expenses	–	54,177	(54,177)	–
Others	–	41,882	(41,882)	–
<b>Total</b>	<b>614,628</b>	<b>2,130,330</b>	<b>(1,819,547)</b>	<b>925,411</b>

<i>In RMB'000</i>	2006			
	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year
Salary, bonus and allowances	283,280	1,081,202	(910,849)	453,633
including: Cash-settled share-based payments	–	9,000	–	9,000
Social insurance and staff welfare	126,648	249,244	(214,897)	160,995
Housing provident funds	–	50,096	(50,096)	–
Staff union and training expenses	–	36,518	(36,518)	–
Others	–	54,724	(54,724)	–
<b>Total</b>	<b>409,928</b>	<b>1,471,784</b>	<b>(1,267,084)</b>	<b>614,628</b>

### 22 Tax payable

<i>In RMB'000</i>	31 December 2007	31 December 2006
Corporate income tax	412,970	276,644
Business tax and surcharges	320,823	197,937
Others	85,963	28,972
<b>Total</b>	<b>819,756</b>	<b>503,553</b>

### 23 Interest payable

<i>In RMB'000</i>	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year
Interest payable to deposits and banks	942,538	8,438,051	(7,652,518)	1,728,071

### 24 Other liabilities

<i>In RMB'000</i>	31 December 2007	31 December 2006
Bank drafts	712,635	252,073
Amounts pending for settlement and clearing	91,552	77,292
Financial guarantee contracts	32,595	32,996
Amounts payable for bond redemption as intermediaries	25,425	12,444
Accrued expenses	90,511	73,394
Amounts payable for acquisition of bonds	250,000	500,000
Inactive deposit account balances	62,367	84,281
Dividends payable	14,022	22,214
Subscription monies of open-ended funds	106,481	12,531
Others	223,029	189,143
<b>Total</b>	<b>1,608,617</b>	<b>1,256,368</b>

## Notes to the Financial Statements

**E Notes to Key Items in the Financial Statements** (Continued)**25 Share capital**

As at 31 December 2007, the Company's registered, issued and fully paid share is 2,293,407 thousand, with RMB 1 Yuan each. The nature and the structure of the share capital are as follows:

<i>In RMB'000</i>	31 December 2006	Movement for %	the year	<b>31 December 2007</b>	%
<b>Restricted tradable shares</b>					
State-owned corporation shares	1,717	0.09%	2,909	<b>4,626</b>	0.20%
Domestic non-stated-owned corporation shares	186,640	9.59%	(3,326)	<b>183,314</b>	8.00%
Domestic individual shares	100	0.01%	443	<b>543</b>	0.02%
Foreign corporation shares	348,103	17.89%	–	<b>348,103</b>	15.18%
<b>Total</b>	<b>536,560</b>	<b>27.58%</b>	<b>26</b>	<b>536,586</b>	<b>23.40%</b>
<b>Unrestricted tradable shares</b>					
RMB ordinary shares	1,409,262	72.42%	347,559	<b>1,756,821</b>	76.60%
Total unrestricted tradable shares	1,409,262	72.42%	347,559	<b>1,756,821</b>	76.60%
<b>Total</b>	<b>1,945,822</b>	<b>100.00%</b>	<b>347,585</b>	<b>2,293,407</b>	<b>100.00%</b>

The Company's share reform scheme was approved at the shareholders' meeting held on 8 June 2007. In accordance with the scheme, based on the 1,409,362 thousand tradable shares and the statutory financial statements of 2006, the Company appropriated its retained earnings as stock dividends to all the tradable shareholders registered in the shareholders' register on the registration date under the share reform scheme. Each tradable shareholder obtains one share for every 10 shares. At the first trading date after the implementation of the share reform scheme, the original non-tradable shares of the Company's non-tradable shareholders were floated. This share reform scheme was implemented on 18 June 2007.

In accordance with the Measures for the Administration of the Share-trading Reform of Listed Companies, the original non-tradable shareholders of the Company promised no transfer or trading of the non-tradable shares held within 12 months since the day of acquiring the trading right. After the expiration of the above commitment term, the previous non-tradable shares trading through the stock exchange shall not be over 5% of the total shares within 12 months, and not over 10% within 24 months.

During the year, restricted tradable shares of 417 thousand held by Shenzhen Hongtu Co., Ltd. were judicially transferred to an individual.

The state-owned China Orient Asset Management Corporation was transferred 2,909 thousand shares from a domestic non-stated-owned corporation during the year.

In addition, owing to the distribution of stock dividends under the share reform plan, exercise of warrants and stock purchases in the secondary market, the restricted tradable shares held by directors, supervisors and senior management of the Company increased by 26 thousand, in totality, during the year.

The increase in share capital during the year was because of the distributions of stock dividends and the exercise of warrants.

The Company has issued 313,014 thousand warrants in 2007, with an exercise price of RMB 19 Yuan for each share. As at 31 December 2007, a total amount of 206,649 thousand warrants were exercised. Of which, except for 58,441 thousand shares that were registered in January 2008, all the remaining shares had been registered during the year. In connection with the above changes in share capital, Ernst & Young Hua Ming had issued related capital verification reports with reference numbers of (2008) Yan Zi No. 60438538\_H01 and (2008) Yan Zi No. 60438538\_H02.

## E Notes to Key Items in the Financial Statements (Continued)

### 26 Capital reserve

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Share premium	<b>5,263,534</b>	1,571,730
Cumulative changes in fair value of available-for-sale financial assets	<b>(60,120)</b>	76,787
Revaluation surplus on owner-occupied properties transferred to investment properties	<b>10,240</b>	-
<b>Total</b>	<b>5,213,654</b>	1,648,517

### 27 Surplus reserve

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Statutory surplus reserve	<b>719,481</b>	454,491

In accordance with the Company Law, the Company is required to appropriate 10% of its profit after tax to its statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to the approval of shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital. The Company may also appropriate its profit after tax to the discretionary surplus reserve upon approval of the shareholders in general meetings.

As at 31 December 2006 and 31 December 2007, the amount of the surplus reserve represented the statutory surplus reserve.

### 28 General reserve

Pursuant to the relevant regulations issued by the MOF, the Company is required to maintain a general reserve within equity, through the appropriation of net profit, which should not be less than 1% of the year end balance of its risk assets. The reserve is to be appropriated over a period of not more than five years, beginning in July 2005. As at 31 December 2007, the Company has met the above reserve requirement.

### 29 Unappropriated profit

Pursuant to a board resolution on 20 March 2007, an appropriation of RMB 130,291 thousand Yuan based on 10% of the net profit as reported in the Company's statutory financial statements of 2006 was proposed and made to the statutory surplus reserve; and an appropriation of RMB 1,200,000 thousand Yuan was made to the general reserve. The above appropriations were approved at the Company's Annual General Meeting held on 15 June 2007.

Pursuant to the approval of shareholders on 8 June 2007, based on the 1,409,362 thousand tradable shares and the statutory financial statements of 2006, the Company appropriated its retained earnings as stock dividends to all the tradable shareholders registered in the shareholders' register on the registration date under the share reform scheme. Each tradable shareholder obtains one share for every 10 shares. The Company has issued 140,936 thousand shares in total. Simultaneously, the Company distributed a cash dividend of RMB 12,666 thousand Yuan to these shareholders on the same day.

Pursuant to a board resolution on 15 August 2007, an appropriation of RMB 112,398 thousand Yuan based on 10% of the net profit as reported in the Company's statutory financial statements of the first half of 2007 was proposed and made to the statutory surplus reserve; and an appropriation of RMB 900,000 thousand Yuan was made to the general reserve. The above appropriations were approved at the Company's shareholders' meeting held on 19 December 2007.

Pursuant to a board resolution on 19 March 2008, based on the audited profit for the year ended 31 December 2007, in addition to the above profit appropriations for the first half of 2007, the Company appropriated its net profit amounting to RMB 152,592 thousand Yuan and RMB 136,000 thousand Yuan to the statutory surplus reserve and the general reserve, respectively. These proposed appropriations are pending approval from shareholders at the forthcoming Annual General Meeting.

## Notes to the Financial Statements

**E Notes to Key Items in the Financial Statements** (Continued)**30 Net interest income**

<i>In RMB'000</i>	2007	2006
<b>Interest income</b>		
Due from financial institutions	2,520,703	1,351,626
Loans and advances		
Corporate loans and advances	8,789,274	6,576,342
Individual loans and advances	3,268,017	1,730,350
Discounted bills	2,164,801	1,530,523
Bond investments	1,301,105	879,579
Subtotal	18,043,900	12,068,420
Of which: interest related to unwinding of discounts of provisions for impaired financial assets	518,592	560,421
<b>Interest expense</b>		
Due to financial institutions	3,390,478	1,519,724
Customer deposits	5,047,573	3,549,049
Subtotal	8,438,051	5,068,773
Net interest income	9,605,849	6,999,647

**31 Net fee and commission income**

<i>In RMB'000</i>	2007	2006
<b>Fee and commission income</b>		
Settlement fee income	161,744	127,781
International settlement fee income	103,565	84,908
Agency business fee income	62,113	18,394
Entrusted loan fee income	8,305	13,994
Bank card fee income	131,102	75,775
Others	200,922	101,136
Subtotal	667,751	421,988
<b>Fee and commission expenses</b>		
Bank card fee expenses	91,837	32,074
Others	55,201	43,961
Subtotal	147,038	76,035
Net fee and commission income	520,713	345,953

**32 Investment income**

<i>In RMB'000</i>	2007	2006
Gain on disposal of bond investments held for trading	4,352	1,113
Loss on disposal of bond investments designated as at fair value through profit or loss	(31,408)	(10,554)
Gain on disposal of available-for-sale bond investments	40,017	61,512
Gain on disposal of available-for-sale equity investments	175,736	58,494
Dividend income	6,955	400
Realised gain/(loss) on derivative financial instruments	5,332	(11,342)
<b>Total</b>	<b>200,984</b>	<b>99,623</b>

## E Notes to Key Items in the Financial Statements (Continued)

### 33 Gains or losses from changes in fair value

<i>In RMB'000</i>	2007	2006
Financial instruments held for trading	(459)	–
Financial assets designated as at fair value through profit or loss	12,534	2,060
Financial liabilities designated as at fair value through profit or loss	(10,925)	(12,080)
Derivative financial instruments	38,288	5,090
Investment properties	42,733	118,542
<b>Total</b>	<b>82,171</b>	<b>113,612</b>

### 34 Other operating income

<i>In RMB'000</i>	2007	2006
Rental income	65,994	48,098
Others	98,975	64,954
<b>Total</b>	<b>164,969</b>	<b>113,052</b>

### 35 General and administrative expenses

<i>In RMB'000</i>	2007	2006
<b>Staff expenses</b>		
Salaries, bonus and allowance	1,599,861	1,081,202
Social insurance and supplementary pension contributions	364,568	249,244
Housing provident funds	69,842	50,096
Labour union and training	54,177	36,518
Others	41,882	54,724
Subtotal	2,130,330	1,471,784
<b>General and administrative expenses</b>		
Rental expenses	358,887	307,034
Computer system maintenance fees	138,120	66,797
Telecommunication and postage expenses	77,285	60,602
Water and electricity expenses	40,381	33,954
Publication and stationery expenses	151,377	134,322
Travel expenses	87,515	119,512
Marketing and public relation expenses	241,706	151,047
Motor vehicle expenses	134,107	72,523
Legal expenses	35,754	33,233
Professional fees (Note)	100,047	107,034
Sundry tax expenses	36,014	33,738
CBRC supervisory fee	44,473	47,400
Amortisation of leasehold improvement	53,909	69,033
Others	356,662	297,365
Subtotal	1,856,237	1,533,594
<b>Depreciation and amortisation</b>		
Depreciation of fixed assets	206,652	198,200
Amortisation of intangible assets	14,275	33,567
Subtotal	220,927	231,767
<b>Total</b>	<b>4,207,494</b>	<b>3,237,145</b>

Note: Included in the professional fees are amounts of RMB 40,333 thousand Yuan (2006: RMB 41,100 thousand Yuan) of consultancy fees payable to GE Management Technology Consulting (Shanghai) Co., Ltd.

## Notes to the Financial Statements

**E Notes to Key Items in the Financial Statements** (Continued)**36 Impairment loss of assets**

<i>In RMB'000</i>	2007						
	Balance at beginning of the year	Charge for the year	Amounts written off	Recovery of loans written off previously	Unwinding of discounts of provisions for impaired loans and advances	Other movements	Balance at end of the year
Provision for decline in value of precious metals	-	61	-	-	-	-	61
Impairment provision for placement of deposits with other financial institutions	67,425	361	(1,000)	-	-	-	66,786
Impairment provision for funds loaned to other financial institutions	324,985	8,283	(17,498)	-	-	(5,873)	309,897
Impairment provision for reverse repurchase agreements	27,550	2,999	-	-	-	-	30,549
Impairment provision for loans and advances	6,937,141	1,946,243	(2,301,981)	34,061	(518,592)	(72,908)	6,023,964
Impairment provision for long-term equity investments	470,745	-	-	-	-	-	470,745
Impairment provision for available-for-sale bond investments	-	30,000	-	-	-	-	30,000
Provision for decline in value of repossessed assets	189,538	14,419	-	-	-	(5,814)	198,143
Impairment provision for other assets	188,891	51,393	-	-	-	(1,836)	238,448
<b>Total</b>	<b>8,206,275</b>	<b>2,053,759</b>	<b>(2,320,479)</b>	<b>34,061</b>	<b>(518,592)</b>	<b>(86,431)</b>	<b>7,368,593</b>

<i>In RMB'000</i>	2006						
	Balance at beginning of the year	Charge for the year	Amounts written off	Recovery of loans written off previously	Unwinding of discounts of provisions for impaired loans and advances	Other movements	Balance at end of the year
Impairment provision for placement of deposits with other financial institutions	76,827	6,113	(15,515)	-	-	-	67,425
Impairment provision for funds loaned to other financial institutions	340,341	13,601	(25,830)	-	-	(3,127)	324,985
Impairment provision for reverse repurchase agreements	27,550	-	-	-	-	-	27,550
Impairment provision for loans and advances	6,232,552	1,863,719	(563,956)	2,398	(560,421)	(37,151)	6,937,141
Impairment provision for long-term equity investments	431,395	40,872	-	-	-	(1,522)	470,745
Provision for decline in value of repossessed assets	171,827	18,728	-	-	-	(1,017)	189,538
Impairment provision for other assets	169,996	43,184	(23,253)	-	-	(1,036)	188,891
<b>Total</b>	<b>7,450,488</b>	<b>1,986,217</b>	<b>(628,554)</b>	<b>2,398</b>	<b>(560,421)</b>	<b>(43,853)</b>	<b>8,206,275</b>



## E Notes to Key Items in the Financial Statements (Continued)

### 37 Income tax expense

<i>In RMB'000</i>	2007	2006
Current tax		
Charge for the year	1,216,465	692,720
Additional charge for prior years	24,171	15,438
Deferred income tax		
Impact of changes in tax rates	(117,288)	–
Other movements	(1,476)	1,779
<b>Total</b>	<b>1,121,872</b>	<b>709,937</b>

The reconciliation of income tax expense applicable to profit before tax at the statutory tax rate of 33% to income tax expense at the Company's effective income tax rate is as follows:

<i>In RMB'000</i>	2007	2006
Profit before tax	3,771,775	2,121,884
Income tax at the statutory rate of 33%	1,244,686	700,222
Additional charge for prior years	24,171	15,438
Non-deductible expenses	5,241	99,195
Non-taxable income	(152,226)	(104,918)
Income tax expense	1,121,872	709,937

### 38 Earnings per share

The Company's basic earnings per share are calculated as follows:

<i>In RMB'000</i>	2007	2006
Net profit attributable to ordinary shareholders of the Company	2,649,903	1,411,947
The weighted average number of ordinary shares outstanding (Note)	2,093,438	2,086,758
Basic earnings per share (RMB Yuan)	1.27	0.68

The Company's diluted earnings per share are calculated as follows:

<i>In RMB'000</i>	2007	2006
Net profit attributable to ordinary shareholders of the Company	2,649,903	1,411,947
The weighted average number of ordinary shares outstanding (Note)	2,093,438	2,086,758
Dilutive effect – weighted average number of ordinary shares		
Warrants	74,140	–
Adjusted weighted average number of ordinary shares outstanding	2,167,578	2,086,758
Diluted earnings per share (RMB Yuan)	1.22	0.68

Note: After the Company has distributed 140,936 thousand shares in June 2007, the number of ordinary shares outstanding increases to 2,086,758 thousand. As a result, the earnings per share for 2006 are re-calculated by the adjusted number of shares.

No changes occurred after the balance sheet date but before the financial statements are authorised for issue.

**E Notes to Key Items in the Financial Statements** (Continued)**39 Cash and cash equivalents**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Cash on hand	<b>1,062,241</b>	909,080
<b>Cash equivalents</b>		
Within three months before original maturity date		
Placement of deposits with other financial institutions	<b>2,372,907</b>	2,693,713
Funds loaned to other financial institutions	<b>1,337,892</b>	2,807,749
Reverse repurchase agreements	<b>15,346,034</b>	4,125,713
Unrestricted balance with the Central Bank	<b>10,436,341</b>	10,475,761
Bond investments (with maturity of less than three months when acquired)	-	1,121,212
Subtotal	<b>29,493,174</b>	21,224,148
<b>Total</b>	<b>30,555,415</b>	22,133,228

**F Segmental Reporting**

The Company mainly organises and manages its operating businesses geographically, and therefore, the primary format in disclosure of segment information is the geographical segments.

Segment assets and liabilities, and segment revenues and profit are calculated according to the accounting policies of the Company.

In presenting information on the basis of geographical segment, operating income and expense are based on the location of the branches that generated the revenue and incurred the expense. Segment assets and liabilities are allocated based on the geographical locations of the underlying assets.

The details of the geographical segments of the Company are as follows:

Southern China: Shenzhen, Guangzhou, Foshan, Zhuhai, Haikou

Eastern China: Shanghai, Hangzhou, Ningbo, Wenzhou, Nanjing

Northern and north-eastern China: Beijing, Tianjin, Dalian, Jinan, Qingdao

South-western China: Chongqing, Kunming, Chengdu

Offshore businesses

## F Segmental Reporting (Continued)

In RMB'000	2007						Total
	Southern China	Eastern China	Northern and north-eastern China	South-western China	Offshore businesses	Eliminations	
Net interest income	4,810,811	2,693,923	1,485,325	525,796	89,994	-	9,605,849
Including: external net interest income	4,810,811	2,693,923	1,485,325	525,796	89,994	-	9,605,849
internal net interest income	-	-	-	-	-	-	-
Net fee and commission income	277,462	116,143	71,000	20,336	35,772	-	520,713
Other income	538,516	58,816	69,411	4,733	9,464	-	680,940
Operating income	5,626,789	2,868,882	1,625,736	550,865	135,230	-	10,807,502
Business tax and surcharges	(282,563)	(300,549)	(189,233)	(51,962)	-	-	(824,307)
General and administrative expenses	(2,280,845)	(1,021,335)	(695,421)	(209,893)	-	-	(4,207,494)
Operating expenses	(2,563,408)	(1,321,884)	(884,654)	(261,855)	-	-	(5,031,801)
Impairment loss of assets	(1,772,992)	(184,862)	(49,857)	(31,507)	(14,541)	-	(2,053,759)
Operating profit	1,290,389	1,362,136	691,225	257,503	120,689	-	3,721,942
Depreciation and amortisation	(153,334)	(63,969)	(49,192)	(25,837)	-	-	(292,332)
<b>Capital expenditure</b>	<b>236,530</b>	<b>56,019</b>	<b>48,505</b>	<b>31,143</b>	<b>-</b>	<b>-</b>	<b>372,197</b>
<b>31 December 2007</b>							
Segment assets	213,890,764	105,849,188	80,366,622	21,728,490	3,621,120	(73,911,212)	351,544,972
Segment liabilities	204,208,241	104,486,345	79,674,242	21,471,851	3,505,287	(73,911,212)	339,434,754

In RMB'000	2006						Total
	Southern China	Eastern China	Northern and north-eastern China	South-western China	Offshore businesses	Eliminations	
Net interest income	2,949,573	2,367,827	1,288,844	338,004	55,399	-	6,999,647
Including: external net interest income	3,287,464	2,218,479	1,114,936	324,665	54,103	-	6,999,647
internal net interest income/ (expenses)	(337,891)	149,348	173,908	13,339	1,296	-	-
Net fee and commission income	189,404	71,652	52,937	11,020	20,940	-	345,953
Other income	372,954	46,871	53,718	2,790	(4,060)	-	472,273
Operating income	3,511,931	2,486,350	1,395,499	351,814	72,279	-	7,817,873
Business tax and surcharges	(188,197)	(212,311)	(123,510)	(29,454)	-	-	(553,472)
General and administrative expenses	(1,659,317)	(885,145)	(550,273)	(142,410)	-	-	(3,237,145)
Operating expenses	(1,847,514)	(1,097,456)	(673,783)	(171,864)	-	-	(3,790,617)
Impairment loss of assets	(1,723,748)	(173,916)	(11,144)	(67,971)	(9,438)	-	(1,986,217)
Operating profit	(59,331)	1,214,978	710,572	111,979	62,841	-	2,041,039
Depreciation and amortisation	(151,712)	(88,616)	(54,230)	(29,776)	-	-	(324,334)
<b>Capital expenditure</b>	<b>127,316</b>	<b>38,160</b>	<b>37,778</b>	<b>16,174</b>	<b>-</b>	<b>-</b>	<b>219,428</b>
<b>31 December 2006</b>							
Segment assets	159,326,773	90,585,082	60,200,376	13,095,648	2,796,432	(66,259,549)	259,744,762
Segment liabilities	155,572,294	89,377,254	59,492,688	12,984,256	2,734,041	(66,259,549)	253,900,984

## Notes to the Financial Statements

**G Commitments and Contingent Liabilities****1 Operating lease commitments**

The Company has entered into commercial leases on certain premises and equipment. At the balance sheet date, the total future minimum lease payments payable under non-cancellable operating leases are as follows:

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Within one year, inclusive	<b>263,204</b>	257,844
After one year but not more than two years	<b>216,752</b>	216,083
After two years but not more than three years	<b>189,963</b>	156,556
More than three years	<b>502,250</b>	545,830
<b>Total</b>	<b>1,172,169</b>	1,176,313

**2 Credit commitments**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
<b>Financial guarantee contracts</b>		
Bank acceptances	<b>121,882,685</b>	101,280,502
Guarantees issued	<b>2,212,937</b>	2,531,815
Letters of credit issued	<b>1,912,162</b>	1,720,642
Loan guarantee contracts	<b>963,135</b>	2,641,306
Subtotal	<b>126,970,919</b>	108,174,265
<b>Irrevocable loan commitments</b>		
Credit limit of credit cards	<b>8,804,290</b>	3,034,546
<b>Total</b>	<b>135,775,209</b>	111,208,811
<b>Credit risk weighted amounts of credit commitments</b>	<b>49,277,576</b>	34,415,010

Financial guarantee contracts commit the Company to make payments on behalf of customers upon the failure of the customers to perform the terms of the contracts.

Commitments to extend credit represent contractual commitments to make loans to customers. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

**3 Fiduciary transactions**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Entrusted deposits	<b>(5,551,762)</b>	(5,898,988)
Entrusted loans	<b>5,551,762</b>	5,898,988
Entrusted funding	<b>(2,007,738)</b>	-
Entrusted investments	<b>2,007,738</b>	-

Entrusted deposits represent funds that depositors have instructed the Company to use to make loans to third parties as designated by them. The credit risk remains with the depositors.

Entrusted funding and entrusted investments represent the investment and asset management services provided by the Company for the third parties in accordance with the agreed investment plan. The third parties provide funding for the related investments. Income from such investment activities are collected on behalf of and paid to the third parties according to the relevant contractual terms.

## G Commitments and Contingent Liabilities *(Continued)*

### 4 Contingent liabilities

#### Legal proceedings

As at 31 December 2007, the total claimed amount of the litigation cases of which the Company is the defendant was RMB 161 million Yuan (31 December 2006: RMB 188 million Yuan). These litigation cases are under legal proceedings. In the opinion of management, the Company has made adequate allowance for any probable losses based on the prevailing facts and circumstances.

Apart from the above pending litigation cases, during the current year, the liquidator of DeHeng Securities Co. Ltd. has requested the Company to repay RMB 0.26 billion Yuan and the liquidator of the China Southern Securities Co., Ltd has requested repayment of RMB 0.17 billion Yuan through court proceedings. The Company had received related repayment notices in prior years and opposed all such repayment requests. At year end, based on the legal opinion from an independent third-party lawyer, the Company had no immediate obligation to repay the monies.

#### Redemption commitments of government bonds

As an underwriting agent of the PRC Government, the Company underwrites certain PRC government bonds and sells the bonds to the general public. The Company is obliged to redeem the bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2007, the Company had underwritten and sold bonds with an accumulated amount of RMB 3.67 billion Yuan (31 December 2006: RMB 5.25 billion Yuan) to the general public which have not matured or been redeemed.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

As at 31 December 2007, the unexpired underwriting commitment of the PRC government bonds amounted to RMB 2.65 billion Yuan (31 December 2006: RMB 1.69 billion Yuan).

## H Capital Management

The primary objectives of the Company's capital management are to ensure that the Company complies with regulatory capital requirements, to maximize shareholders value and to support the continuous growth in business. The Company regularly reviews its capital structure and makes adjustments to it through asset and liability management, so as to maintain the overall balance of the capital structure and maximization of capital return.

During the year of 2007, the Company has increased the core capital by RMB 3.9 billion Yuan by issuance and exercise of warrants. As at 31 December 2007, both the Company's core capital adequacy ratio and capital adequacy ratio achieved 5.8%, where the former exceeded the regulatory requirement of 4%.

The second batch of warrants of the Company will be due to be exercised in the mid of 2008. If these warrants were fully exercised, the core capital would increase by RMB 1.9 billion Yuan. Furthermore, certain projects for enhancing the core capital and supplementary capital have been approved by shareholders in an extraordinary general meeting. In connection with this, it is expected that the core capital and supplementary capital will increase by RMB 4.2 billion Yuan and no more than RMB 8 billion Yuan, respectively.

During the year of 2007, the Company calculated and reported the core capital adequacy ratio and capital adequacy ratio in accordance with the Regulation Methods on Commercial Banks' Capital Adequacy Ratio promulgated by the CBRC and the CBRC's notice relating to questions of computation of the capital adequacy ratio after the implementation of ASBEs.

The core capital includes share capital, capital reserve, surplus reserve, general reserve and unappropriated profit. The supplementary capital includes revaluation surplus.

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Net core capital	<b>12,692,620</b>	6,379,384
Supplementary capital	<b>112,317</b>	45,169
Net capital	<b>12,691,876</b>	6,419,812
Risk weighted assets and market risk capital adjustment	<b>220,056,277</b>	173,222,058
Core capital adequacy ratio	<b>5.8%</b>	3.7%
Capital adequacy ratio	<b>5.8%</b>	3.7%

## Notes to the Financial Statements

**I Risk Disclosure****1 Credit risk**

Credit risk primarily refers to the possibility that a bank's customers or counterparties will not be able or willing to fulfil their contractual obligations. The Company's credit risk mainly arises from the loans and advances to customers.

The Company has established a Credit Portfolio Management Committee, which approves and determines the Company's credit risk management strategies, credit risk preferences as well as its various credit risk management policies and standards. The Company has also formulated guidelines on corporate and retail credit policies across the Company and for specific industries. Furthermore, the Company has implemented a strategic customer categorisation management system, and set up a customer entry and exit mechanism to facilitate the sustainable development of credit underwriting business.

The Company implements a credit risk officer system, in which the Chief Credit Officer at the Head Office appoints credit officers to various business lines and branches. The credit officers directly report to the Chief Credit Officer, who is responsible for evaluating the performance of the credit officers and establishing an independent and transparent vertical credit risk management system.

The Company has formulated a complete set of operational procedures for credit approval and management. These procedures are being enforced across the Company. Credit management procedures for its corporate and retail loans comprise the processes of credit origination, credit review, credit approval, disbursement, post-disbursement monitoring and collection. In addition, the Company has formulated the "Policies of Credit Underwriting", which defines the functions and responsibilities of different credit operational processes, and has enhanced the monitoring of the related compliance for improving the overall effective control of credit risk.

The Company has strengthened its early warning monitoring system for the credit business with measures applicable to the portfolio level and to individual customers, resulting to early detection and effective management of credit risks.

The Company sub-divides the credit asset risks into ten categories based on the five-tier loan classification system promulgated by the CBRC, namely, Normal One, Normal Two, Normal Three, Normal Four, Normal Five, Special Mention One, Special Mention Two, Substandard, Doubtful and Loss. Furthermore, a separate "Write-off" category has been added to the classification system. The Company applies different management policies to the loans in accordance with their respective loan categories.

Risks arising from financial guarantees and loan commitments are similar to those associated with loans and advances. These transactions are, therefore, subject to the same portfolio management and the same requirements for application and collateral as loans and advances to customers.

**Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Due from the Central Bank (excluding cash on hand)	<b>39,664,146</b>	25,379,096
Placement of deposits with other financial institutions	<b>4,013,690</b>	3,081,003
Funds loaned to other financial institutions	<b>2,642,656</b>	3,369,176
Financial assets at fair value through profit or loss	<b>1,477,625</b>	427,358
Derivative financial assets	<b>291,816</b>	22,763
Reverse repurchase agreements	<b>33,768,925</b>	11,271,768
Loans and advances	<b>215,789,634</b>	175,244,806
Available-for-sale financial assets	<b>17,850,892</b>	18,052,342
Held-to-maturity investments	<b>15,911,486</b>	17,548,193
Receivables – bond investments	<b>13,450,000</b>	–
Long-term equity investments	<b>251,948</b>	247,665
Other assets	<b>2,203,870</b>	987,671
Total	<b>347,316,688</b>	255,631,841
Financial guarantee	<b>126,970,919</b>	108,174,265
Irrevocable loan commitments	<b>8,804,290</b>	3,034,546
Maximum exposure to credit risk	<b>483,091,897</b>	366,840,652



## I Risk Disclosure (Continued)

### 1 Credit risk (Continued)

#### Risk concentration of the maximum exposure to credit risk

Credit risk is often greater when counterparties are concentrated in a single industry or geographic location or have comparable economic characteristics.

The majority of the loans and financial guarantee contracts of the Company are related to the local customers within Mainland China. However, different areas in the PRC have their own unique characteristics in terms of economic development. Therefore, each area in the PRC could present different credit risk.

Please refer to the Note E.8 for an analysis of concentration of loans and advances by industry and geographical region.

#### Collateral and other credit enhancements

The amount and type of collateral required is determined by the Company based on its assessment of the credit risk of the counterparty. The Company has implemented guidelines regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions: bills, loans or securities
- For commercial lending: charges over real estate properties, inventories, shares and trade receivables
- For retail lending: mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

#### Credit quality

The credit quality by class of financial asset (gross amount before deducting any impairment provision) of the Company is analysed as follows:

<i>In RMB'000</i>	31 December 2007			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Placement of deposits with other financial institutions	4,010,556	–	69,920	4,080,476
Funds loaned to other financial institutions	2,628,782	–	323,771	2,952,553
Financial assets at fair value through profit or loss	1,477,625	–	–	1,477,625
Reverse repurchase agreements	33,747,752	–	51,722	33,799,474
Loans and advances	206,938,684	265,602	14,609,312	221,813,598
Available-for-sale financial assets	17,673,235	–	73,040	17,746,275
Held-to-maturity investments	15,911,486	–	–	15,911,486
Receivables – bond investments	13,450,000	–	–	13,450,000
<b>Total</b>	<b>295,838,120</b>	<b>265,602</b>	<b>15,127,765</b>	<b>311,231,487</b>

<i>In RMB'000</i>	31 December 2006			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Placement of deposits with other financial institutions	3,073,508	–	74,920	3,148,428
Funds loaned to other financial institutions	3,284,664	–	409,497	3,694,161
Financial assets at fair value through profit or loss	427,358	–	–	427,358
Reverse repurchase agreements	11,247,596	–	51,722	11,299,318
Loans and advances	165,296,130	802,855	16,082,962	182,181,947
Available-for-sale financial assets	17,973,886	–	–	17,973,886
Held-to-maturity investments	17,548,193	–	–	17,548,193
<b>Total</b>	<b>218,851,335</b>	<b>802,855</b>	<b>16,619,101</b>	<b>236,273,291</b>

## Notes to the Financial Statements

**I Risk Disclosure** (Continued)**1 Credit risk** (Continued)**Credit quality** (Continued)

Neither past due nor impaired loans and advances

At the balance sheet date, the aggregate amount of neither past due nor impaired loans and advances to customers are “pass” and “special mention” loans graded in accordance with the five-tier classification.

Past due but not impaired loans and advances

At the balance sheet date, ageing analyses of the past due but not yet impaired loans and advances are as follows:

<i>In RMB'000</i>	31 December 2007				Total	Fair value of collateral
	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months		
Corporate loans and advances	94,872	55,482	12,280	102,968	265,602	173,033

<i>In RMB'000</i>	31 December 2006				Total	Fair value of collateral
	Within 1 month	1 to 2 months	2 to 3 months	More than 3 months		
Corporate loans and advances	132,637	40,000	179,542	450,676	802,855	295,397

Impaired loans and advances

Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occur after initial recognition, resulting in an impact on the estimated future cash flows of loans and advances that can be reliably estimated.

The fair value of the collateral that the Company holds relating to loans individually determined to be impaired at 31 December 2007 amounted to RMB 1,988 million Yuan (31 December 2006: RMB 1,931 million Yuan).

The carrying amount of loans and advances that would otherwise be past due or impaired whose terms have been renegotiated is as follows:

<i>In RMB'000</i>	31 December 2007	31 December 2006
Loans and advances to customers	390,718	900,529

## I Risk Disclosure (Continued)

### 2 Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due. The risk is attributable to any mismatch in amounts and terms between the assets and liabilities. To limit the risk, management has arranged diversified funding sources, and monitors loans and deposit balances on a daily basis. The Company also maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. Furthermore, the Company performs stress testing regularly to assess and identify the actions that can meet the payment obligations under different critical scenarios.

As at 31 December 2007, the remaining contractual maturity analysis of the Company's financial assets and financial liabilities (based on contractual undiscounted cash flows) was as follows:

In RMB'000	31 December 2007							Undated	Total
	Overdue/ On demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years			
<b>ASSETS</b>									
Cash on hand and due from the Central Bank	11,850,638	-	-	-	-	-	28,894,261	40,744,899	
Amounts due from other financial institutions (Note 1)	2,191,516	20,336,743	14,696,117	3,128,556	504,226	-	-	40,857,158	
Financial assets at fair value through profit or loss and derivative financial assets	-	4,162,049	2,557,348	5,682,672	115,222	57,710	-	12,575,001	
Loans and advances	6,806,547	14,258,620	31,750,385	103,828,330	43,896,193	53,124,173	-	253,664,248	
Available-for-sale financial assets	43,040	1,946,360	2,991,745	3,310,196	9,876,833	1,079,676	134,617	19,382,467	
Held-to-maturity investments	-	13,818	132,068	1,544,100	10,360,242	6,147,147	-	18,197,375	
Receivables – bond investments	-	-	-	497,975	14,445,950	-	-	14,943,925	
Long-term equity investments	-	-	-	-	-	-	251,948	251,948	
Other financial assets	88,578	-	846,069	2,457	562	45,502	52,170	1,035,338	
<b>Total financial assets</b>	<b>20,980,319</b>	<b>40,717,590</b>	<b>52,973,732</b>	<b>117,994,286</b>	<b>79,199,228</b>	<b>60,454,208</b>	<b>29,332,996</b>	<b>401,652,359</b>	
<b>LIABILITIES</b>									
Amounts due to other financial institutions (Note 2)	27,167,521	17,525,521	5,216,411	1,752,909	-	-	-	51,662,362	
Financial liabilities at fair value through profit or loss and derivative financial liabilities	-	3,451,187	3,073,454	5,309,105	108,021	-	-	11,941,767	
Customer deposits	106,168,886	40,621,695	49,282,780	70,122,182	20,188,968	318	-	286,384,829	
Other financial liabilities	723,493	887,713	546,389	307,496	36,342	-	-	2,501,433	
<b>Total financial liabilities</b>	<b>134,059,900</b>	<b>62,486,116</b>	<b>58,119,034</b>	<b>77,491,692</b>	<b>20,333,331</b>	<b>318</b>	<b>-</b>	<b>352,490,391</b>	
<b>Liquidity net value</b>	<b>(113,079,581)</b>	<b>(21,768,526)</b>	<b>(5,145,302)</b>	<b>40,502,594</b>	<b>58,865,897</b>	<b>60,453,890</b>	<b>29,332,996</b>	<b>49,161,968</b>	

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

## Notes to the Financial Statements

**I Risk Disclosure** (Continued)**2 Liquidity risk** (Continued)

As at 31 December 2006, the remaining contractual maturity analysis of the Company's financial assets and financial liabilities (based on contractual undiscounted cash flows) was as follows:

In RMB'000	31 December 2006							Undated	Total
	Overdue/ On demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years			
<b>ASSETS</b>									
Cash on hand and due from the Central Bank	11,395,020	-	-	-	-	-	-	14,903,335	26,298,355
Amounts due from other financial institutions (Note 1)	2,294,028	3,350,371	9,785,545	1,941,835	465,273	-	-	-	17,837,052
Financial assets at fair value through profit or loss and derivative financial assets	-	1,764,485	97,865	2,280,475	457,568	37,567	-	-	4,637,960
Loans and advances	8,323,837	10,630,151	25,942,220	84,801,297	28,220,844	38,529,830	-	-	196,448,179
Available-for-sale financial assets	-	1,566,495	2,195,696	8,317,624	5,076,021	1,705,665	78,456	-	18,939,957
Held-to-maturity investments	-	10,345	136,907	3,339,201	8,363,007	8,448,086	-	-	20,297,546
Long-term equity investments	-	-	-	-	-	-	-	247,665	247,665
Other financial assets	104,118	-	70,192	-	520	1,035	111,936	-	287,801
<b>Total financial assets</b>	<b>22,117,003</b>	<b>17,321,847</b>	<b>38,228,425</b>	<b>100,680,432</b>	<b>42,583,233</b>	<b>48,722,183</b>	<b>15,341,392</b>	<b>-</b>	<b>284,994,515</b>
<b>LIABILITIES</b>									
Amounts due to other financial institutions (Note 2)	13,988,203	765,614	1,274,330	1,807,248	-	-	-	-	17,835,395
Financial liabilities at fair value through profit or loss and derivative financial liabilities	-	1,761,248	122,874	2,637,541	57,546	37,566	-	-	4,616,775
Customer deposits	89,268,587	33,181,303	42,614,670	53,816,060	15,937,665	36,728	-	-	234,855,013
Other financial liabilities	1,149,399	189	532,689	61,279	34,759	59,295	-	-	1,837,610
<b>Total financial liabilities</b>	<b>104,406,189</b>	<b>35,708,354</b>	<b>44,544,563</b>	<b>58,322,128</b>	<b>16,029,970</b>	<b>133,589</b>	<b>-</b>	<b>-</b>	<b>259,144,793</b>
<b>Liquidity net value</b>	<b>(82,289,186)</b>	<b>(18,386,507)</b>	<b>(6,316,138)</b>	<b>42,358,304</b>	<b>26,553,263</b>	<b>48,588,594</b>	<b>15,341,392</b>	<b>-</b>	<b>25,849,722</b>

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

**3 Market risk**

The Company is exposed to market risk primarily through long positions in interest rate and exchange rate products. Market risk may arise from the Company's trading and non-trading business activities. The aim of market risk management of the Company is to mitigate undue losses of income and equity, and simultaneously, to reduce the Company's exposure to the volatility inherent in financial instruments.

The Company's Risk Management Committee and the Asset and Liability Management Committee are responsible for setting up market risk management policies, establishing market risk management objectives and determining market risk limits. The Asset and Liability Management Committee is responsible to control the volume, structure, interest rate and liquidity of the Company's business. The Company's Financial Information and Asset and Liability Management Department discharges the daily market risk monitoring function on behalf of the Asset and Liability Management Committee, including determination of reasonable levels of market risk exposures, monitoring the daily treasury operation and proposing adjustments to the maturity profile of the assets and liabilities and the interest rate structure.

## I Risk Disclosure (Continued)

### 3 Market risk (Continued)

Gap analysis is the key method used by the Company to monitor the market risk of its non-trading business activities. This method measures the impact of interest rate changes on income, with interest-earning assets and interest-bearing liabilities grouped by their respective re-pricing bands for the calculation of the re-pricing gap. By multiplying this position with an assumed interest rate change, an approximate effect on the net interest income resulting from the assumed interest rate change is quantified.

The market risk management information system is being developed for further improvement in market risk management measures.

Financial derivative transactions entered into by the Company primarily provide effective economic hedges to other financial instruments held by the Company for mitigation of interest and exchange rate risks. In the opinion of management, as the market risk of the Company's trading business activities is not material, the Company has not separately disclosed quantitative information about exposure to market risk arising from the trading portfolio.

#### i Currency risk

The Company is mainly exposed to currency risk resulting from currency mismatches between the assets and liabilities as well as from foreign currency transactions. The currency risk of the Company mainly arises from loans and advances, investments and deposits denominated in foreign currencies. The Company has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

As at 31 December 2007, the Company's financial assets and financial liabilities by currency are analysed as follows:

In RMB'000	31 December 2007			
	RMB	USD	Others	Total
<b>ASSETS</b>				
Cash on hand and due from the Central Bank	39,982,987	455,463	287,937	40,726,387
Precious metals	8,200	–	–	8,200
Amounts due from other financial institutions (Note 1)	36,512,797	2,894,457	1,018,017	40,425,271
Financial assets at fair value through profit or loss and derivative financial assets	1,725,970	30,696	12,775	1,769,441
Loans and advances	209,581,235	5,348,466	859,933	215,789,634
Available-for-sale financial assets	17,734,798	116,094	–	17,850,892
Held-to-maturity investments	15,346,134	542,929	22,423	15,911,486
Receivables – bond investments	13,450,000	–	–	13,450,000
Long-term equity investments	228,616	23,332	–	251,948
Fixed assets	1,554,278	–	–	1,554,278
Other assets	4,652,261	116,023	33,540	4,801,824
<b>Total assets</b>	<b>340,777,276</b>	<b>9,527,460</b>	<b>2,234,625</b>	<b>352,539,361</b>
<b>LIABILITIES</b>				
Amounts due to other financial institutions (Note 2)	49,269,603	2,114,598	112,440	51,496,641
Financial liabilities at fair value through profit or loss and derivative financial liabilities	1,332,219	153,975	15,636	1,501,830
Customer deposits	270,811,155	7,764,505	2,701,321	281,276,981
Other liabilities	5,126,495	97,309	34,042	5,257,846
<b>Total liabilities</b>	<b>326,539,472</b>	<b>10,130,387</b>	<b>2,863,439</b>	<b>339,533,298</b>
<b>Net position</b>	<b>14,237,804</b>	<b>(602,927)</b>	<b>(628,814)</b>	<b>13,006,063</b>
<b>Off-balance sheet credit commitment</b>	<b>132,199,399</b>	<b>3,201,181</b>	<b>374,629</b>	<b>135,775,209</b>

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

## Notes to the Financial Statements

**I Risk Disclosure** (Continued)**3 Market risk** (Continued)**i Currency risk** (Continued)

As at 31 December 2006, the Company's financial assets and financial liabilities by currency are analysed as follows:

In RMB'000	31 December 2006			
	RMB	USD	Others	Total
<b>ASSETS</b>				
Cash on hand and due from the Central Bank	25,791,774	322,315	174,087	26,288,176
Amounts due from other financial institutions (Note 1)	13,445,030	3,061,641	1,215,276	17,721,947
Financial assets at fair value through profit or loss and derivative financial assets	21,514	424,463	4,144	450,121
Loans and advances	171,578,621	2,803,962	862,223	175,244,806
Available-for-sale financial assets	17,905,922	–	146,420	18,052,342
Held-to-maturity investments	16,393,890	1,001,248	153,055	17,548,193
Long-term equity investments	223,373	24,292	–	247,665
Fixed assets	1,542,789	–	–	1,542,789
Other assets	3,472,894	160,196	31,563	3,664,653
<b>Total assets</b>	<b>250,375,807</b>	<b>7,798,117</b>	<b>2,586,768</b>	<b>260,760,692</b>
<b>LIABILITIES</b>				
Amounts due to other financial institutions (Note 2)	16,479,647	1,256,692	73,915	17,810,254
Financial liabilities at fair value through profit or loss and derivative financial liabilities	7,807	500,676	3,383	511,866
Customer deposits	223,667,420	6,184,536	2,354,372	232,206,328
Other liabilities	3,544,707	64,930	25,567	3,635,204
<b>Total liabilities</b>	<b>243,699,581</b>	<b>8,006,834</b>	<b>2,457,237</b>	<b>254,163,652</b>
<b>Net position</b>	<b>6,676,226</b>	<b>(208,717)</b>	<b>129,531</b>	<b>6,597,040</b>
<b>Off-balance sheet credit commitment</b>	<b>108,282,786</b>	<b>2,646,604</b>	<b>279,421</b>	<b>111,208,811</b>

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

The table below indicates the currencies to which the Company had significant exposure on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the exchange rate against the RMB, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

CURRENCY	31 December 2007	
	Change in exchange rate in %	Effect on profit before tax
US\$	+/-8%	-/+50,101
Others	+/-8%	-/+50,305

CURRENCY	31 December 2006	
	Change in exchange rate in %	Effect on profit before tax
US\$	+/-8%	-/+18,641
Others	+/-8%	+/-10,362



## I Risk Disclosure (Continued)

### 3 Market risk (Continued)

#### ii Interest rate risk

The Company's interest rate risk mainly arises from the mismatch of contractual maturity or re-pricing dates between interest-earning assets and interest-bearing liabilities. The interest-earning assets and interest-bearing liabilities of the Company are mainly denominated in RMB. The PBOC sets a cap and a floor on interest rates on deposits and loans, respectively.

The Company manages its interest rate risk by adjusting the composition of assets and liabilities, monitoring indicators such as the interest rate sensitivity gap on a regular basis and measuring risk exposure in accordance with the re-pricing characteristics of assets and liabilities. The Asset and Liability Management Committee meets regularly to discuss future movement in interest rates and manages interest rate risk exposures by adjusting the composition of the assets and liabilities.

As at 31 December 2007, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's financial assets and financial liabilities are analysed as follows:

In RMB'000	31 December 2007					Total
	Within 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest-bearing	
<b>ASSETS</b>						
Cash on hand and due from the Central Bank	39,308,438	–	–	–	1,417,949	40,726,387
Precious metals	–	–	–	–	8,200	8,200
Amounts due from other financial institutions (Note 1)	36,982,611	2,952,660	490,000	–	–	40,425,271
Financial assets at fair value through profit or loss and derivative financial assets	857,867	569,758	–	50,000	291,816	1,769,441
Loans and advances	98,970,728	109,648,399	6,340,160	830,347	–	215,789,634
Available-for-sale financial assets	7,063,115	4,748,776	5,063,178	841,206	134,617	17,850,892
Held-to-maturity investments	609,625	4,683,237	6,331,275	4,287,349	–	15,911,486
Receivables – bond investments	–	–	13,450,000	–	–	13,450,000
Long-term equity investments	–	–	–	–	251,948	251,948
Fixed assets	–	–	–	–	1,554,278	1,554,278
Other assets	–	–	–	–	4,801,824	4,801,824
<b>Total assets</b>	<b>183,792,384</b>	<b>122,602,830</b>	<b>31,674,613</b>	<b>6,008,902</b>	<b>8,460,632</b>	<b>352,539,361</b>
<b>LIABILITIES</b>						
Amounts due to other financial institutions (Note 2)	49,806,438	1,690,203	–	–	–	51,496,641
Financial liabilities at fair value through profit or loss and derivative financial liabilities	690,015	550,390	6,252	–	255,173	1,501,830
Customer deposits	197,468,485	65,092,412	17,481,005	315	1,234,764	281,276,981
Other liabilities	–	–	–	–	5,257,846	5,257,846
<b>Total liabilities</b>	<b>247,964,938</b>	<b>67,333,005</b>	<b>17,487,257</b>	<b>315</b>	<b>6,747,783</b>	<b>339,533,298</b>
<b>Interest rate risk exposure</b>	<b>(64,172,554)</b>	<b>55,269,825</b>	<b>14,187,356</b>	<b>6,008,587</b>	<b>Not applicable</b>	<b>Not applicable</b>

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

## Notes to the Financial Statements

**I Risk Disclosure** (Continued)**3 Market risk** (Continued)**ii Interest rate risk** (Continued)

As at 31 December 2006, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's financial assets and financial liabilities are analysed as follows:

In RMB'000	31 December 2006					Total
	Within 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest-bearing	
<b>ASSETS</b>						
Cash on hand and due from the Central Bank	25,169,064	–	–	–	1,119,112	26,288,176
Amounts due from other financial institutions (Note 1)	15,381,431	1,940,516	400,000	–	–	17,721,947
Financial assets at fair value through profit or loss and derivative financial assets	136,677	290,681	–	–	22,763	450,121
Loans and advances	72,089,242	91,379,288	9,489,719	2,286,557	–	175,244,806
Available-for-sale financial assets	4,178,003	9,984,815	2,105,403	1,705,665	78,456	18,052,342
Held-to-maturity investments	245,293	4,842,788	6,449,825	6,010,287	–	17,548,193
Long-term equity investments	–	–	–	–	247,665	247,665
Fixed assets	–	–	–	–	1,542,789	1,542,789
Other assets	–	–	–	–	3,664,653	3,664,653
<b>Total assets</b>	<b>117,199,710</b>	<b>108,438,088</b>	<b>18,444,947</b>	<b>10,002,509</b>	<b>6,675,438</b>	<b>260,760,692</b>
<b>LIABILITIES</b>						
Amounts due to other financial institutions (Note 2)	16,081,906	1,728,348	–	–	–	17,810,254
Financial liabilities at fair value through profit or loss and derivative financial liabilities	188,586	295,165	–	–	28,115	511,866
Customer deposits	163,533,251	53,488,126	14,103,326	2,254	1,079,371	232,206,328
Other liabilities	–	–	–	–	3,635,204	3,635,204
<b>Total liabilities</b>	<b>179,803,743</b>	<b>55,511,639</b>	<b>14,103,326</b>	<b>2,254</b>	<b>4,742,690</b>	<b>254,163,652</b>
<b>Interest rate risk exposure</b>	<b>(62,604,033)</b>	<b>52,926,449</b>	<b>4,341,621</b>	<b>10,000,255</b>	<b>Not applicable</b>	<b>Not applicable</b>

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

The Company principally uses sensitivity analysis to measure and control interest rate risk. In respect of the financial assets and liabilities at fair value through profit or loss, in the opinion of management, the interest rate risk to the Company arising from this portfolio is not significant. For other financial assets and liabilities, the Company mainly uses gap analysis to measure and control the related interest rate risk.

As at 31 December 2007 and 31 December 2006, the gap analyses of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) are as follows:

In RMB'000	31 December 2007		31 December 2006	
	Changes in interest rate (basis point)		Changes in interest rate (basis point)	
	-100	+100	-100	+100
Effect on the net interest income – increase/(decrease)	<b>355,998</b>	<b>(355,998)</b>	349,137	(349,137)
Effect on equity – increase/(decrease)	<b>90,170</b>	<b>(90,170)</b>	140,749	(140,749)

The above gap analyses assume that the interest rate risk profile of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) remains static.

The sensitivity of the net interest income is the effect of a reasonable possible change in interest rates on the net interest income for one year, in respect of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) held at the balance sheet date. The sensitivity of equity is calculated by revaluing the year end portfolio of fixed-rate available-for-sale financial assets, based on a reasonable possible change in interest rates.

## I Risk Disclosure *(Continued)*

### 3 Market risk *(Continued)*

#### ii Interest rate risk *(Continued)*

The above sensitivity analyses are based on the following assumptions: (i) all assets and liabilities that are re-priced/due within three months (inclusive), and between three months and one year (inclusive) are assumed to be re-priced in the mid of the respective bands; and (ii) there are parallel shifts in the yield curve.

Regarding to the above assumptions, the effect on the net interest income and equity as a result of the actual increases or decreases in interest rates may differ from that of the above sensitivity analyses.

### 4 Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties at an arm's length transaction. Subject to the existence of an active market (e.g., authorised securities exchange), the market value is the best reflection of the fair value of a financial instrument. As there is no available market value for part of the financial assets and liabilities held and issued by the Company, the present value or other valuation methods described below are used to determine the fair values of these assets and liabilities. However, the value determined by this method is subject to the impact of future cash flows, time assumptions and discount rates used.

The following methods and assumptions have been used in estimating fair value:

i Financial assets/financial liabilities at fair value through profit or loss (including derivative financial assets/derivative financial liabilities) are measured at fair value by reference to the quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of discounted cash flows or by reference to the quotes provided by counterparty. The carrying amounts of these items are equal to their fair values.

ii The fair values of the held-to-maturity investments and the receivables-bond investments are determined with reference to the available market values. If quoted market prices are not available, then fair values are estimated on the basis of discounted cash flows.

iii The fair values of other financial assets and financial liabilities maturing within 12 months are assumed to be approximately equal to their carrying amounts due to their short maturity.

iv The fair values of the fixed rate loans are estimated by comparing the market interest rates when the loans are granted with the current market rates offered on similar loans. Changes in credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the impairment provision from both the carrying amount and the fair value.

v Interest rates on customer deposits might either be floating or fixed depending on the types of products. The fair values of saving accounts and deposits without maturity date are the amounts payable on demand to customers. The fair values of deposits with fixed terms are determined by the discounted cash flow method. The discount rate adopted is the current interest rate on deposits with the same maturity as the remaining maturity of those deposits.

All of these assumptions and methods provide a consistent basis for calculating the fair values of the Company's assets and liabilities. However, other institutions may use different assumptions and methods for calculation, and therefore the fair values disclosed by different financial institutions may not be entirely comparable.

In the opinion of the management, there are no material differences between the fair values and the related carrying amounts of the loans and advances, receivables-bond investments and customer deposits at the year end.

## J Related Party Relationships and Transactions

Details of the Company's major shareholder are as follows:

NAME	Place of registration	Percentage of equity interest held	
		31 December 2007	31 December 2006
Newbridge Asia AIV III, L.P.	Delaware, USA	16.70%	17.89%

Newbridge Asia AIV III, L.P. is an investment fund whose register form is a limited partnership and its registered capital is US\$724 million. It focuses on strategic investment. It was established on 22 June 2000 and its initial existing period was 10 years. The ultimate controlling parties of Newbridge Asia AIV III, L.P. are Mr David Bonderman, Mr James G. Coulter, Mr William S. Price III and Mr Richard C. Blum.

## Notes to the Financial Statements

**J Related Party Relationships and Transactions** (Continued)

Details of the Company's original subsidiary, which is in the process of being sold, are as follows:

NAME	Place of registration	Registered capital (RMB Yuan)	Percentage of equity interest held by the Company	Principal activity
Shenzhen Yuan Sheng Industrial Co., Ltd.	Shenzhen, the PRC	21,010,000	100%	Real estate

As at 31 December 2007, the current balance of the accounts receivable from Shenzhen Yuan Sheng Industrial Co., Ltd. was RMB 1,059 thousand Yuan (31 December 2006: RMB 10,989 thousand Yuan).

The related party transactions between the Company and the key management personnel during the year are listed below:

**LOANS**

*In RMB'000*

	31 December 2007	31 December 2006
Balance at beginning of the year	-	2,713
Increase during the year	800	-
Decrease during the year	(88)	(2,713)
Balance at end of the year	712	-
<b>Interest income on loans</b>	<b>20</b>	24

**DEPOSITS**

*In RMB'000*

	31 December 2007	31 December 2006
Balance at beginning of the year	10,786	9,492
Increase during the year	89,627	50,262
Decrease during the year	(81,797)	(48,968)
Balance at end of the year	18,616	10,786
<b>Interest expenses on deposits</b>	<b>29</b>	137

These deposit and loan transactions are under normal business terms and conditions and were being processed under normal procedures.

As at 31 December 2007, the Company has authorised a total credit facility of RMB 2.772 billion Yuan (31 December 2006: RMB 2.415 billion Yuan) for entities relating to the key management personnel of the Company and their close family members, which included an outstanding loan balance amounted to RMB 1.19 billion Yuan (31 December 2006: RMB 1.209 billion Yuan) and an outstanding facility of the off-balance sheet items amounted to RMB 0.39 billion Yuan (31 December 2006: RMB 0.118 billion Yuan).

Details of the compensation for key management personnel are as follows:

<i>In RMB'000</i>	31 December 2007	31 December 2006
Salaries and other short-term employee benefits	70,156	46,121
Post-employment benefits	556	82
Other long-term employee benefits	-	-
Termination benefits	-	-
Share-based payment benefits	6,278	1,472
	<b>76,990</b>	47,675

**K Post Balance Sheet Events**

As at 13 March 2008, the Company has received approval from the CBRC and PBOC to issue up to RMB 7 billion Yuan in subordinate bonds on the interbank market.

**L Comparative Figures**

The comparative figures have been restated in accordance with the requirements of the first-time adoption of ASBEs in this year.

**M Approval of the Financial Statements**

The financial statements have been authorised for issuance by the board of directors on 19 March 2008.

## Appendix: Supplementary Financial Information

### Net Asset Return and Earnings per Share

	2007				
	Net profit for the year (In RMB'000)	Net asset return		Earnings per share (In RMB)	
		Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	<b>2,649,903</b>	<b>20.37%</b>	<b>33.41%</b>	<b>1.27</b>	<b>1.22</b>
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	<b>2,607,545</b>	<b>20.05%</b>	<b>32.88%</b>	<b>1.25</b>	<b>1.20</b>

In RMB	2006				
	Net profit for the year (In RMB'000)	Net asset return		Earnings per share (In RMB)	
		Fully diluted	Weighted average	Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	1,411,947	21.40%	24.45%	0.68	0.68
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	1,343,229	20.36%	23.26%	0.64	0.64

Of which, net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss:

In RMB	31 December 2007	31 December 2006
Net profit attributable to ordinary shareholders of the Company	<b>2,649,903</b>	1,411,947
Add/(deduct): Non-recurring profit and loss		
Non-operating income	<b>(89,720)</b>	(102,303)
Non-operating expense	<b>39,887</b>	21,458
Income tax effect	<b>7,475</b>	12,127
Net profit attributable to ordinary shareholders of the Company after deduction of non-recurring profit and loss	<b>2,607,545</b>	1,343,229

The above net asset return and earnings per share are calculated in accordance with the rules stipulated in the Regulation on Information Disclosure of Public Companies No. 9 as revised by the China Securities Regulatory Commission on 2 February 2007. Non-recurring profit and loss is calculated in accordance with the rules stipulated in the Questions and Responses of Information Disclosure Standards of Public Companies No. 1.

## Report of the International Auditors

To the shareholders of Shenzhen Development Bank Co., Ltd.

We have audited the accompanying balance sheet of Shenzhen Development Bank Co., Ltd. (the "Company") as at 31 December 2007 and the related statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Management's responsibility for the financial statements

The Company's management is responsible for the preparation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2007 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Certified Public Accountants  
Hong Kong  
19 March 2008

## Income Statement

for the year ended 31 December 2007

<i>In RMB'000</i>	Note	2007	2006
Interest income	4	18,043,900	12,068,420
Interest expense	4	(8,438,051)	(5,068,773)
Net interest income	4	9,605,849	6,999,647
Fee and commission income	5	667,751	421,988
Fee and commission expense	5	(147,038)	(76,035)
Net fee and commission income	5	520,713	345,953
Investment income	6	200,984	99,623
Gains from changes in fair values	7	82,171	108,641
Net foreign exchange difference		232,816	188,988
Other net income	8	214,802	177,832
<b>Total operating income</b>		<b>10,857,335</b>	<b>7,920,684</b>
Staff expenses	9	(2,130,330)	(1,471,784)
General and administrative expenses	9	(1,802,328)	(1,464,561)
Depreciation and amortisation	9	(274,836)	(275,406)
Business tax and surcharges		(824,307)	(553,472)
Profit before impairment loss of assets		5,825,534	4,155,461
Impairment loss of assets	10	(2,053,759)	(1,986,217)
<b>Profit before tax</b>		<b>3,771,775</b>	<b>2,169,244</b>
Income tax expense	11	(1,121,872)	(705,858)
<b>Net profit</b>		<b>2,649,903</b>	<b>1,463,386</b>
<b>Earnings per share</b>			
Basic earnings per share	12	1.27	0.70
Diluted earnings per share	12	1.22	0.70

The accounting policies and explanatory notes on pages 136 through 178 form an integral part of the financial statements.



# Balance Sheet

at 31 December 2007

<i>In RMB'000</i>	Note	2007	2006
<b>ASSETS</b>			
Cash on hand and due from the Central Bank	13	40,726,387	26,288,176
Precious metals		8,200	–
Placement of deposits with other financial institutions	14	4,013,690	3,081,003
Funds loaned to other financial institutions	15	2,642,656	3,369,176
Reverse repurchase agreements	16	33,768,925	11,271,768
Financial assets at fair value through profit or loss	17	1,477,625	427,358
Derivative financial assets	18	291,816	22,763
Loans and advances	19	215,789,634	175,244,806
Available-for-sale financial assets	20	17,825,241	18,217,969
Held-to-maturity investments	21	15,826,998	17,430,604
Receivables-bond investments	22	13,450,000	–
Property and equipment	23	1,710,094	1,693,940
Investment properties	24	441,098	460,656
Long term prepayments		120,942	127,760
Intangible assets		67,725	26,568
Deferred tax assets, net	25	895,845	753,262
Other assets	26	3,383,941	2,082,215
<b>Total assets</b>		<b>352,440,817</b>	<b>260,498,024</b>
<b>LIABILITIES</b>			
Placement of deposits from other financial institutions	27	32,388,762	17,069,244
Funds borrowed from other financial institutions		2,640,297	–
Customer deposits	28	281,276,981	232,206,328
Repurchase agreements	16	16,467,582	741,010
Financial liabilities at fair value through profit or loss	17	1,246,657	483,751
Derivative financial liabilities	18	255,173	28,115
Tax payable		412,970	276,644
Employee benefits payable	29	925,411	614,628
Other liabilities	30	3,820,921	2,481,264
<b>Total liabilities</b>		<b>339,434,754</b>	<b>253,900,984</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	31	2,293,407	1,945,822
Share premium		5,263,534	1,571,730
Reserves	32	3,386,065	2,211,742
Unappropriated profit	33	2,063,057	867,746
<b>Total shareholders' equity</b>		<b>13,006,063</b>	<b>6,597,040</b>
<b>Total shareholders' equity and liabilities</b>		<b>352,440,817</b>	<b>260,498,024</b>

The accounting policies and explanatory notes on pages 136 through 178 form an integral part of the financial statements.

## Statement of Changes in Equity

<i>In RMB'000</i>	Share capital	Share premium	Reserves (note 32)	Of which: Cumulative changes in fair value of available-for-sale financial assets	Of which: Revaluation surplus on owner-occupied properties transferred to investment properties	Of which: General reserve	Unappropriated profit (note 33)	Total
Balance as at 1 January 2007	1,945,822	1,571,730	2,211,742	76,787	760	1,679,704	867,746	6,597,040
<b>CHANGES IN EQUITY FOR 2007</b>								
<b>Available-for-sale financial assets</b>								
Valuation gain taken into equity	-	-	(105,991)	(105,991)	-	-	-	(105,991)
Amortisation of unrealized gain of the held-to-maturity investments transferred from available-for-sale financial assets	-	-	3,732	3,732	-	-	-	3,732
Transferred to the income statement upon disposal	-	-	(60,716)	(60,716)	-	-	-	(60,716)
<b>Investment properties</b>								
Fair value adjustments taken into equity	-	-	12,489	-	12,489	-	-	12,489
Tax on items taken directly into or transferred from equity	-	-	23,819	26,068	(2,249)	-	-	23,819
Net income recognised directly in equity	-	-	(126,667)	(136,907)	10,240	-	-	(126,667)
Net profit for the year	-	-	-	-	-	-	2,649,903	2,649,903
Total recognised income and expenses for the year	-	-	(126,667)	(136,907)	10,240	-	2,649,903	2,523,236
Exercise of share warrants	206,649	3,698,598	-	-	-	-	-	3,905,247
Expenses of share reform plan	-	(6,794)	-	-	-	-	-	(6,794)
Profit appropriation	140,936	-	1,300,990	-	-	1,036,000	(1,454,592)	(12,666)
Balance as at 31 December 2007	2,293,407	5,263,534	3,386,065	(60,120)	11,000	2,715,704	2,063,057	13,006,063

The accounting policies and explanatory notes on pages 136 through 178 form an integral part of the financial statements.

## Statement of Changes in Equity *(Continued)*

<i>In RMB'000</i>	Share capital	Share premium	Reserves (note 32)	Of which: Cumulative changes in fair value of available-for-sale financial assets	Of which: Revaluation surplus on owner-occupied properties transferred to investment properties	Of which: General reserve	Unappropriated profit (note 33)	Total
Balance as at 1 January 2006	1,945,822	1,571,730	806,449	2,247	298	479,704	734,651	5,058,652
<b>CHANGES IN EQUITY FOR 2006</b>								
<b>Available-for-sale financial assets</b>								
Valuation gain taken into equity	–	–	136,392	136,392	–	–	–	136,392
Amortisation of unrealized gain of the held-to-maturity investments transferred from available-for-sale financial assets	–	–	(22,752)	(22,752)	–	–	–	(22,752)
Transferred to the income statement upon disposal	–	–	(25,946)	(25,946)	–	–	–	(25,946)
Investment properties:								
Fair value adjustments taken into equity	–	–	544	–	544	–	–	544
Tax on items taken directly into or transferred from equity	–	–	(13,236)	(13,154)	(82)	–	–	(13,236)
Net income recognised directly in equity	–	–	75,002	74,540	462	–	–	75,002
Net profit for the year	–	–	–	–	–	–	1,463,386	1,463,386
Total recognised income and expenses for the year	–	–	75,002	74,540	462	–	1,463,386	1,538,388
Profit appropriation	–	–	1,330,291	–	–	1,200,000	(1,330,291)	–
Balance as at 31 December 2006	1,945,822	1,571,730	2,211,742	76,787	760	1,679,704	867,746	6,597,040

The accounting policies and explanatory notes on pages 136 through 178 form an integral part of the financial statements.

## Statement of Cash Flows

for the year ended 31 December 2007

<i>in RMB'000</i>	Note	2007	2006
<b>Cash flows from operating activities</b>	34	<b>18,155,886</b>	12,315,524
Income tax paid		(1,104,310)	(809,983)
Net cash flows generated from operating activities		<b>17,051,576</b>	11,505,541
<b>Cash flows from investing activities</b>			
Purchases of properties and equipment		(316,764)	(200,178)
Purchases of investment properties		-	(695)
Purchases of intangible assets		(55,434)	(18,555)
Proceeds from disposal of items of property and equipment		109,300	30,500
Proceeds from disposal of investment properties		18,940	333,459
Interest received from investment securities		673,687	734,795
Dividend received from investment securities		6,955	400
Purchases of bond investments		(123,539,875)	(59,721,617)
Proceeds from disposal of bond investments		111,192,097	50,021,763
Purchases of equity investments		-	(230)
Proceeds from disposal of equity investments		179,317	1,372
Net cash flows used in investing activities		<b>(11,731,777)</b>	(8,818,986)
<b>Cash flows from financing activities</b>			
Proceeds from exercise of warrants		3,136,366	-
Dividends paid		(20,858)	(1,227)
Payment of expenses relating to share reform and exercise of warrants		(13,120)	-
Net cash flows generated from/(used in) financing activities		<b>3,102,388</b>	(1,227)
<b>Net increase in cash and cash equivalents</b>		<b>8,422,187</b>	2,685,328
Cash and cash equivalents at beginning of the year		<b>22,133,228</b>	19,447,900
<b>Cash and cash equivalents at end of the year</b>		<b>30,555,415</b>	22,133,228
<b>Analysis of balances of cash and cash equivalents</b>			
Cash on hand		1,062,241	909,080
Cash equivalents			
Within three months before original maturity date			
Placement of deposits with other financial institutions		2,372,907	2,693,713
Funds loaned to other financial institutions		1,337,892	2,807,749
Reverse repurchase agreements		15,346,034	4,125,713
Unrestricted balance with the Central bank		10,436,341	10,475,761
Bond investments (with maturity of less than three months when acquired)		-	1,121,212
		<b>30,555,415</b>	22,133,228
<b>Supplementary information</b>			
Interest received		16,652,111	11,302,676
Interest paid		(7,648,161)	(4,945,905)

The accounting policies and explanatory notes on pages 136 through 178 form an integral part of the financial statements.

# Notes to the Financial Statements

## 1 General Information

Shenzhen Development Bank Co., Ltd. (the “Company”) was established in the People’s Republic of China (the “PRC”) as a result of the restructuring of six agricultural credit co-operatives into a joint stock commercial bank with limited liability. The Company was established on 22 December 1987 after the initial public offering of its RMB ordinary shares on 10 May 1987. The Company was listed on the Shenzhen Stock Exchange on 3 April 1991 and the stock code is 000001.

The institution number of the Company on the 00000028 approval document issued by the China Banking Regulatory Commission is B0014H144030001. The business licence number of the Company issued by the Shenzhen Municipal Administration of Industry and Commerce is 440301103098545.

The Company is principally engaged in authorised commercial and retail banking activities in the Mainland China.

The registered office of the Company is located at No. 5047, Shennan Road East, Luohu District, Shenzhen, Guangdong Province, PRC. Headquartered in Shenzhen, the Company operates its business in the Mainland China. As at 31 December 2007, the Company has established branches in Beijing, Shanghai, Tianjin, Guangzhou, Shenzhen, Chongqing, Dalian, Hangzhou, Nanjing, Haikou, Jinan, Qingdao, Zhuhai, Foshan, Ningbo, Wenzhou, Chengdu and Kunming.

## 2 Summary of Significant Accounting Policies

### Basis of preparation

These financial statements have been prepared following the accounting measurement policies set out below which are in accordance with International Financial Reporting Standards (“IFRSs”). IFRSs comprise standards and interpretations approved by the International Accounting Standards Board (the “IASB”), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect.

The financial statements have been prepared on a historical cost basis, except for measurement at fair value of financial assets or liabilities through profit or loss, available-for-sale investment securities, investment properties, financial guarantee contracts and share-based payment.

The Company maintains its books and prepares its statutory financial statements in accordance with the related accounting standards stipulated by the Ministry of Finance (the “MOF”) of the PRC. In accordance with the “Notice of the Ministry of Finance on Publishing the ‘Accounting Standards for Business Enterprises No. 1 – Inventories’ and other 37 Specific Standards” (Cai Kuai [2006] No. 3), the Company applies Accounting Standards for Business Enterprises (“ASBEs”) which were promulgated by the MOF in 2006, on 1 January 2007. As the accounting policies adopted in the preparation of the statutory financial statements are basically the same as those adopted in these financial statements, there is no significant difference in the results of operations and financial performance.

### Significant accounting judgements and estimates

In the process of applying the Company’s accounting policies, management has made assumptions of the effects of uncertain future events on the financial information. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period are discussed below. Apart from those assumptions and estimations, judgements are also made and are set out below.

### Designation of held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and a fixed maturity are classified as held-to-maturity investments when the Company has the positive intention and ability to hold the investments to maturity. Accordingly, in evaluating whether a financial asset shall be classified as held-to-maturity investment, significant management judgement is required. If the Company fails to correctly assess its intention and ability to hold the investments to maturity and the Company sells or reclassifies more than an insignificant amount of held-to-maturity investments before maturity, the Company shall classify the whole held-to-maturity investment portfolio as available-for-sale.

### Impairment losses of loans and advances

The Company determines periodically whether there is any objective evidence that an impairment loss on loans and advances has been incurred. If any such evidence exists, the Company assesses the amount of impairment losses. The amount of impairment losses is measured as the difference between the carrying amount and the present value of estimated future cash flows. Assessing the amount of impairment losses requires significant judgement on whether objective evidence for impairment exists and also significant estimates when determining the present value of the expected future cash flows.

## 2 Summary of Significant Accounting Policies *(Continued)*

### Significant accounting judgements and estimates *(Continued)*

#### Income tax

Determining income tax provisions requires the Company to estimate the future tax treatment of certain transactions. The Company carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant estimation on the tax treatments of certain transactions and also significant assessment on the probability that adequate future taxable profits will be available for the deferred income tax assets to be recovered.

#### Fair value of financial instruments

If the market for a financial instrument is not active, the Company establishes fair value by using a valuation technique. Valuation techniques include using recent arm's length market transactions between knowledgeable willing parties, if available, reference to the current fair value of another instrument that is substantially the same, and discounted cash flow analysis. To the extent practicable, valuation technique makes maximum use of market inputs. However, where market inputs are not available, management needs to make estimates on areas such as credit risk (both own and counterparty's), volatility and correlation. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

#### Changes in accounting policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amended IFRSs and IFRIC interpretations during the year. The adoption of these revised standards and interpretations did not have any effect on the financial performance or position of the Company. They did however in certain cases, give rise to revisions to accounting policies and additional disclosures.

IFRS 7	Financial Instruments: Disclosures
IAS 1	Amendment to Presentation of Financial Statements
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

#### IFRS 7 Financial Instruments: Disclosures

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Company's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results, comparative information has been revised where needed.

#### IAS 1 Amendment to Presentation of Financial Statement

This amendment requires the Company to make new disclosures of objectives, policies and processes for managing capital. These new disclosures are shown in Note 38.

#### IFRIC 8 Scope of IFRS 2

This interpretation requires IFRS 2 to be applied to any arrangements which the Company cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than the fair value. The interpretation has had no significant impact on the financial position or performance of the Company.

#### IFRIC 9 Reassessment of Embedded Derivatives

IFRIC 9 states that the date to assess the existence of an embedded derivative is the date that the Company first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The interpretation has had no impact on the financial position or performance of the Company.

#### IFRIC 10 Interim Financial Reporting and Impairment

The Company adopted IFRIC Interpretation 10 as of 1 January 2007, which requires that the Company must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company had no impairment losses previously reversed, the interpretation has had no impact on the financial position or performance of the Company.

## 2 Summary of Significant Accounting Policies *(Continued)*

### Impact of issued but not yet effective IFRSs

The Company has not applied the following IFRSs that have been issued but are not yet effective in these financial statements.

IAS 23	Borrowing Costs (Revised)
IFRS 8	Operating Segments
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The revised IAS 23 Borrowing Costs was issued in March 2007, and becomes effective for financial years beginning on or after 1 January 2009. The revised standard eliminates the options of expensing all borrowing costs and requires borrowing costs to be capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. However, the revised standard is not required to be applied to borrowing costs directly attributable to qualifying assets measured at fair value; or inventories that are manufactured in large quantities on a repetitive basis.

IFRS 8 is effective for annual periods beginning on or after 1 January 2009. This new standard replaces IAS 14 and adopts a full management approach to segment reporting. Generally, the information reported is that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. This information may be different from what is used for preparing the balance sheet and income statement. Accordingly, IFRS 8 requires explanations of the measurement basis on how the segment information is prepared and reconciliations of segment information to the corresponding amounts in the balance sheet and income statement.

IFRIC 11 was issued in November 2006 and becomes effective for financial years beginning on or after 1 March 2007. This interpretation requires arrangements whereby an employee is granted rights to the Company's equity instruments to be accounted for as an equity-settled scheme, even if the Company buys the instruments from another party, or the shareholders provide the equity instruments needed.

IFRIC 12 was issued in November 2006 and becomes effective for annual periods beginning on or after 1 January 2008. This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

IFRIC 13 was issued in June 2007 and becomes effective for annual periods beginning on or after 1 July 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled.

IFRIC 14 was issued in July 2007 and becomes effective for annual periods beginning on or after 1 January 2008. This interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under IAS 19 Employee Benefits.

The Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has been concluded that while the adoption of IFRS 8 may result in new or amended disclosures, other new and revised IFRSs are unlikely to have a significant impact on the Company's results of operations and financial position.

### Basis of consolidation

Subsidiaries or special purpose vehicles that are directly or indirectly controlled by the Company are consolidated. Material inter-company transactions between the Company and its subsidiaries and the related balances are eliminated in the preparation of the consolidated financial statements. Subsidiaries that are acquired during the year are included in the consolidation from the date which the title and ownership have been transferred. Subsidiaries that are expected to be disposed of are included in consolidation until the disposal has been completed.

Associate companies that the Company has significant influence on are accounted for in the consolidated financial statements by the equity method. Significant influence means the Company owns more than 20% of the voting rights of the associate companies.

### Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and when the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- i Interest income is recognised as it accrues (using the effective interest method by applying the rate that exactly discounts estimated future cash receipts through the expected life of a financial instrument to the net carrying amount of the financial asset). Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.
- ii Fee and commission income is recognised when the services have been rendered and the proceeds can be reasonably estimated.
- iii Dividend income is recognised when the shareholders' right to receive payment has been established.



## 2 Summary of Significant Accounting Policies *(Continued)*

### Financial assets

The Company classifies its financial assets into four categories: financial assets at fair value through profit or loss; held-to-maturity investments; loans and receivables; and available-for-sale financial assets. Management determines the classification of a financial asset at its initial recognition and evaluates this designation at each reporting date. When a financial asset is recognised initially, the Company shall measure it at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

#### Financial assets at fair value through profit or loss

There are two sub-categories of financial assets at fair value through profit or loss:

##### (1) Financial assets held for trading

A financial asset is classified as held for trading if it is:

- acquired principally for the purpose of sale in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking; or
- a derivative (except for a derivative that is designated and an effective hedging instrument).

##### (2) Financial assets designated at fair value through profit or loss by management upon initial recognition

A financial asset, other than one held for trading, may be designated as financial asset at fair value through profit or loss upon initial recognition, if it meets the criteria set out below, and is so designated by management:

- eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities or recognising the gains and losses on them on different bases;
- applies to a group of financial assets, financial liabilities or both that are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and where information about that group of financial instruments is provided internally on that basis to key management personnel; or
- relates to financial instruments containing one or more embedded derivatives that significantly modify the cash flows resulting from those financial instruments; or it is clear with little or no analysis when a similar hybrid instrument is first considered that the embedded derivatives should be separated.

After the initial recognition, these financial assets are measured at their fair values, without any deduction for transaction costs that the Company may incur on sale or other disposal. All related realised and unrealised gains or losses are included in the income statement for the year.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes a party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

#### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Company's management has the positive intention and ability to hold to maturity. These investments are carried at amortised cost using the effective interest method, less provision for impairment in value. The Company shall reclassify any remaining held-to-maturity investments as available-for-sale and shall not classify any financial assets as held-to-maturity if it has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity other than sales or reclassifications that:

- (1) are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- (2) occur after the Company has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- (3) are attributable to an isolated event that is beyond the Company's control and is non-recurring and could not have been reasonably anticipated by the Company.

#### Loan and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and the Company has no intention of trading the assets immediately or in the near term. Loans and receivables are carried at amortised cost using the effective interest method, less provision for impairment in value.

## 2 Summary of Significant Accounting Policies *(Continued)*

### Financial assets *(Continued)*

#### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. After the initial recognition, financial assets which are classified as available-for-sale are stated at fair value. Premiums and discounts on available-for-sale financial assets are amortised using the effective interest method and taken to the interest income.

Changes in fair value of available-for-sale financial assets are reported as a separate component of equity until the financial asset is derecognised or the financial asset is determined to be impaired. On derecognition or impairment, the cumulative gain or loss previously reported as “cumulative changes in fair value of available-for-sale financial assets” within equity is included in the income statement for the year.

A financial asset is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of ownership of the financial asset; or (ii) has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, but has transferred control of the asset.

#### Fair value measurement

For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

The estimated fair value of deposits with no stated maturity, which include non-interest-bearing deposits, is the amount payable on demand.

The fair value of forward exchange contracts is calculated by reference to forward exchange rates with similar maturities.

For unquoted financial instruments, fair value is normally based on the expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics.

The fair value of unquoted derivatives is determined either by discounted cash flows or internal pricing models.

#### Impairment of financial assets

The Company assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets (other than those at fair value through profit or loss) is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flow of the financial asset or a group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment provision account and the amount of the loss is recognised in the income statement.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

Future cash flows of a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the impact of current conditions that did not affect the period on which the historical loss experience is based and to eliminate the impact of historical conditions that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Company.

## 2 Summary of Significant Accounting Policies *(Continued)*

### Impairment of financial assets *(Continued)*

#### Financial assets carried at amortised cost *(Continued)*

If, in a subsequent period, the amount of an impairment loss decreases and the decrease can be attributed objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

When a loan and receivable is uncollectible, it is written off against the related allowance for impairment losses. Such loans and receivables are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of the amounts previously written off decrease the amount of the provision for impairment losses in the income statement.

#### Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the carrying amount of that financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement.

Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement. Reversals of impairment losses on debt instruments classified as available-for-sale are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

### Financial liabilities

The Company classifies its financial liabilities into two categories: financial liabilities at fair value through profit or loss and financial liabilities carried at amortised cost. Management determines the classification of a financial liability at its initial recognition. When a financial liability is recognised initially, the Company shall measure it at its fair value plus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

#### Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are financial liabilities which are either classified as held for trading or, based on the criteria in the accounting policies of "Financial assets" (a) (ii) above, designated by the Company as fair value through profit or loss upon initial recognition. Gains and losses from changes in fair value are recognised in the income statement.

A financial liability is classified as held for trading if it is:

- incurred principally for the purpose of repurchasing in the near term
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking
- a derivative (except for a derivative that is a designated and effective hedging instrument)

After initial recognition, these financial liabilities are measured at their fair values, without any deduction for transaction costs it may incur on sale or other disposal. All related realised and unrealised gains or losses are included in the income statement for the year.

#### Financial liabilities carried at amortised cost

After initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

### Derivative financial instruments

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the hybrid instrument is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

## 2 Summary of Significant Accounting Policies *(Continued)*

### Derivative financial instruments *(Continued)*

Certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting and are therefore treated as derivatives held for trading with fair value gains or losses recognised in the income statement.

### Trade date accounting

Except for loans and receivables, all regular way purchases and sales of financial assets are recognised on the trade date, that is, the date on which the Company commits to purchase or sell the asset. A regular way purchase and sale is the purchase or sale of financial assets that requires delivery of assets within the time frame generally established by regulation or convention in the marketplace.

### Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet only when the Company currently has a legally enforceable right to offset the recognised amounts; and the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Reverse repurchase agreements and repurchase agreements

Assets sold under agreements to repurchase at a specific future date are not derecognised from the balance sheet. The corresponding proceeds are recognised on the balance sheet as "Repurchase agreements". The difference between the sale price and the repurchase price is treated as interest expense and is accrued over the life of the agreement using the effective interest method.

Conversely, assets purchased under agreements to resell at a specific future date are not recognised on the balance sheet. The corresponding cost is recognised on the balance sheet as a "Reverse repurchase agreements". The difference between the purchase price and the resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

### Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the income statement on the straight-line basis over the period of the leases.

### Construction in progress

Construction in progress represents costs incurred in the construction of office premises including furniture and fixtures. Costs comprise direct costs incurred during the period of construction. Interest charged on related borrowings for the construction is capitalised and such capitalisation of interest ceases when the assets under construction are completed and are ready for their intended use. No capitalisation of interest is made if the cost incurred during the construction is from the Company's own fund.

The costs are transferred to property and equipment when the asset is ready for its intended use, and are depreciated in accordance with the related depreciation policy. Construction in progress is not depreciated.

### Property and equipment

All property and equipment are stated at cost less any accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Properties and buildings	3.30%
Transportation vehicles	16.20%
Computers	19.80% or 33.00%
Electronic appliances	9.90% or 19.80%
Owner-occupied property improvement	10.00% or 20.00%
Leasehold improvement	Over the lease terms

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year/period the asset is derecognised.

## 2 Summary of Significant Accounting Policies *(Continued)*

### Impairment of non-financial assets

The Company assesses at each balance sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined on an individual basis, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered to be impaired and is written down to its recoverable amount. In assessing value in use of an asset, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement under those expense categories consistent with the function of the impaired assets.

An assessment is made at each balance sheet date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of any depreciation/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal, the depreciation/amortisation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

### Investment properties

Investment properties are interests in land or buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes, or for sale in the ordinary course of business. The Company adopts the fair value model for the measurement of investment properties which are not depreciated or amortised. At each period end, the carrying value of the investment properties is adjusted based on the fair value, and any difference between the carrying amount and the fair value is accounted for in the income statement.

### Repossessed assets

Repossessed assets are measured at the lower of the carrying amount of the loans and advances and interest receivables being settled, and fair value of the related repossessed assets less costs to sell. Impairment losses for any initial or subsequent write-down of the repossessed assets to fair value less costs to sell are recognised in the income statement.

### Foreign currency translation

The financial statements are presented in RMB, being the functional and presentation currency of the Company's operations.

Foreign currency transactions are translated into the functional currency using the exchange rates ruling at the dates of transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the applicable exchange rates ruling at the balance sheet date. Exchange differences arising on the settlement of monetary items or on translating monetary items at year/period end rates are recognised in the income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates ruling at the dates of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates ruling at the date when the fair value was determined.

### Fiduciary activities

Where the Company acts in a fiduciary capacity such as nominee, trustee or agent, assets arising thereon together with the related undertakings to return such assets to customers are excluded from these financial statements.

### Financial guarantee contracts

The Company gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. These financial guarantee contracts provided for specified payments to be made to reimburse the holder for a loss it incurs when a guaranteed party defaults under the original or modified terms of a debt instrument, loan or other obligation.

Financial guarantee contracts are initially recognised at fair value, in "Other liabilities", being the premium received. The guarantee fee is amortised over the period of the contract and is recognised as fee and commission income. Subsequent to initial recognition, the Company's liabilities under such contracts are each measured at the higher of the initial fair value less cumulative amortisation, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee. Any increase in the liability relating to financial guarantees is taken to the income statement.

## 2 Summary of Significant Accounting Policies *(Continued)*

### Related parties

A party is considered to be related to the Company if:

- i the party, directly or indirectly through one or more intermediaries, (a) controls, is controlled by, or is under common control with, the Company; (b) has an interest in the Company that gives it significant influence over the Company; or (c) has joint control over the Company;
- ii the party is an associate of the Company;
- iii the party is joint venture in which the Company is a venture;
- iv the party is a member of the key management personnel of the Company or its parent;
- v the party is a close member of the family of any individual referred to in (i) or (iv);
- vi the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- vii the party is a post-employment benefit plan for the benefit of the employees of the Company, or of any entity that is a related party of the Company.

### Income tax

Income tax comprises current tax and movements in deferred tax balances.

Current tax is the amount of income taxes payable in respect of the taxable profit for a period. Taxable profit is the profit for a period, determined in accordance with the rules established by the taxation authorities, upon which income taxes are payable.

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities.

Deferred tax is provided on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, using tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax assets also arise from unused tax losses and unused tax credits.

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- i the initial recognition of goodwill; or the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: the transaction is not a business combination; and at the time of the transaction, it affects neither accounting profit nor taxable profit (or deductible loss);
- ii for taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly controlled enterprises, the timing of the reversal of the temporary difference can be controlled; and it is probable that the temporary difference will not reverse in the foreseeable future.

For deductible temporary differences, the carryforward of unused deductible losses and tax credits, the Company recognised the corresponding deferred tax asset to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences, the deductible losses and tax credits can be utilized, unless the deferred tax asset arises from the initial recognition of an asset or liability in a transaction that: 1) the transaction is not a business combination; 2) at the time of the transaction, it affects neither accounting profit nor taxable profit (or deductible loss).

For deductible temporary differences arising from investments in subsidiaries, associates, and interests in jointly controlled enterprises, the corresponding deferred tax asset is recognised, to the extent that, it is probable that: the temporary difference will reverse in the foreseeable future; and taxable profits will be available in the future, against which the temporary difference can be utilized.

At the balance sheet date, deferred tax assets and deferred tax liabilities measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the balance sheet date, to recover the assets or settle the carrying amounts of its assets and liabilities.

At the balance sheet date, the Company reviews the carrying amount of a deferred tax asset. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profits will be available in future periods to allow the benefit of the deferred tax asset to be utilized. Any such reduction in the amount is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current and deferred tax of the Company is recognised as income or an expense and included in the income statement for the current period, except to the extent that the tax arises from a business combination; or a transaction or event which is recognised directly in owner's equity.

## 2 Summary of Significant Accounting Policies *(Continued)*

### Employee benefits

#### Short term employee benefits

Salaries and bonuses, social security contributions and other short term employee benefits are accrued in the period in which services are rendered by the employees of the Company.

#### Defined contribution plans

According to the statutory requirements in Mainland China, the Company is required to make contributions to the pension and insurance schemes that are separately administered by the local government authorities. Contributions to these plans are recognised in the income statement as incurred.

#### Supplementary retirement benefits

Certain employees of the Company in Mainland China can enjoy supplementary retirement benefits after retirement. These benefits are unfunded. The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The present value of such benefits is recorded under "Other liabilities" in the balance sheet. Actuarial gains and losses are recognised in the income statement in the period in which they occur.

#### Share-based payment transactions

The Company grants equity instruments, or incurs liabilities for amounts that are determined based on the price of equity instruments, in return for services rendered by employees or other parties.

The cost of cash-settled transactions is measured initially at fair value at the grant date using an appropriate pricing model taking into account the terms and conditions upon which the instruments were granted. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is remeasured at each balance sheet date up to and including the settlement date, with changes in fair value recognised in the income statement.

### Cash and cash equivalents

Cash and cash equivalents represent cash on hand, general deposits with the Central Bank, placement of deposits with other financial institutions and funds loaned to other financial institutions with original maturity of three months or less, and short term highly liquid investments (maturity within three months from the date of acquisition) which are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value.

### Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate.

### Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events but is not recognised because it is not probable that an outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the Notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

## 3 Segmental Reporting

The Company mainly organises and manages its operating businesses geographically, and therefore, the primary format in disclosure of segment information is the geographical segments.

Segment assets and liabilities, and segment revenues and profit are calculated according to the accounting policies of the Company.

In presenting information on the basis of geographical segment, operating income and expense are based on the location of the branches that generated the revenue and incurred the expense. Segment assets and liabilities are allocated based on the geographical locations of the underlying assets.



## Notes to the Financial Statements

**3 Segmental Reporting** (Continued)

The details of the geographical segments of the Company are as follows:

Southern China: Shenzhen, Guangzhou, Foshan, Zhuhai, Haikou

Eastern China: Shanghai, Hangzhou, Ningbo, Wenzhou, Nanjing

Northern and north-eastern China: Beijing, Tianjin, Dalian, Jinan, Qingdao

South-western China: Chongqing, Kunming, Chengdu

Offshore businesses

In RMB'000	2007						Total
	Southern China	Eastern China	Northern and north-eastern China	South-western China	Offshore businesses	Eliminations	
Net interest income	4,810,811	2,693,923	1,485,325	525,796	89,994	-	9,605,849
Including: external net interest income	4,810,811	2,693,923	1,485,325	525,796	89,994	-	9,605,849
internal net interest income	-	-	-	-	-	-	-
Net fee and commission income	277,462	116,143	71,000	20,336	35,772	-	520,713
Other income	572,903	66,052	76,526	5,828	9,464	-	730,773
Operating income	5,661,176	2,876,118	1,632,851	551,960	135,230	-	10,857,335
Business tax and surcharges	(282,563)	(300,549)	(189,233)	(51,962)	-	-	(824,307)
General and administrative expenses	(2,280,845)	(1,021,335)	(695,421)	(209,893)	-	-	(4,207,494)
Impairment loss of assets	(1,772,992)	(184,862)	(49,857)	(31,507)	(14,541)	-	(2,053,759)
Operating expenses	(4,336,400)	(1,506,746)	(934,511)	(293,362)	(14,541)	-	(7,085,560)
Operating profit	1,324,776	1,369,372	698,340	258,598	120,689	-	3,771,775
Depreciation and amortisation	(153,334)	(63,969)	(49,192)	(25,837)	-	-	(292,332)
<b>Capital expenditure</b>	<b>236,530</b>	<b>56,019</b>	<b>48,505</b>	<b>31,143</b>	<b>-</b>	<b>-</b>	<b>372,197</b>
<b>31 December 2007</b>							
Segment assets	213,890,764	105,849,188	80,366,622	21,728,490	3,621,120	(73,911,212)	351,544,972
Segment liabilities	204,208,241	104,486,345	79,674,242	21,471,851	3,505,287	(73,911,212)	339,434,754

In RMB'000	2006						Total
	Southern China	Eastern China	Northern and north-eastern China	South-western China	Offshore businesses	Eliminations	
Net interest income	2,949,573	2,367,827	1,288,844	338,004	55,399	-	6,999,647
Including: external net interest income	3,287,464	2,218,479	1,114,936	324,665	54,103	-	6,999,647
internal net interest income/ (expenses)	(337,891)	149,348	173,908	13,339	1,296	-	-
Net fee and commission income	189,404	71,652	52,937	11,020	20,940	-	345,953
Other income	473,259	49,254	53,265	3,366	(4,060)	-	575,084
Operating income	3,612,236	2,488,733	1,395,046	352,390	72,279	-	7,920,684
Business tax and surcharges	(188,197)	(212,311)	(123,510)	(29,454)	-	-	(553,472)
General and administrative expenses	(1,652,593)	(866,475)	(550,273)	(142,410)	-	-	(3,211,751)
Impairment loss of assets	(1,723,748)	(173,916)	(11,144)	(67,971)	(9,438)	-	(1,986,217)
Operating expenses	(3,564,538)	(1,252,702)	(684,927)	(239,835)	(9,438)	-	(5,751,440)
Operating profit	47,698	1,236,031	710,119	112,555	62,841	-	2,169,244
Depreciation and amortisation	(145,700)	(69,947)	(53,518)	(29,776)	-	-	(298,941)
<b>Capital expenditure</b>	<b>127,316</b>	<b>38,160</b>	<b>37,778</b>	<b>16,174</b>	<b>-</b>	<b>-</b>	<b>219,428</b>
<b>31 December 2006</b>							
Segment assets	159,326,773	90,585,082	60,200,376	13,095,648	2,796,432	(66,259,549)	259,744,762
Segment liabilities	155,572,294	89,377,254	59,492,688	12,984,256	2,734,041	(66,259,549)	253,900,984

#### 4 Net Interest Income

<i>In RMB'000</i>	2007	2006
<b>Interest income</b>		
Interest income on loans and advances (Note)	14,222,092	9,837,215
Interest income on amounts due from financial institutions	2,520,703	1,351,626
Interest income on investment securities (excluding financial assets at fair value through profit or loss)	1,261,540	837,853
Subtotal	18,004,335	12,026,694
Interest income on financial assets at fair value through profit or loss	39,565	41,726
Total	18,043,900	12,068,420
<b>Interest expense</b>		
Interest expense on amounts due to financial institutions	3,390,478	1,519,724
Interest expense on customer deposits	5,014,596	3,539,215
Subtotal	8,405,074	5,058,939
Interest expense on financial liabilities at fair value through profit or loss	32,977	9,834
Total	8,438,051	5,068,773
<b>Net interest income</b>	<b>9,605,849</b>	<b>6,999,647</b>

Note: Included within interest income is RMB 519 million Yuan (2006: RMB 560 million Yuan) in respect of interest related to unwinding of discounts of impairment provisions for financial assets (see Note 19vi).

#### 5 Net Fee and Commission Income

<i>In RMB'000</i>	2007	2006
<b>Fee and commission income</b>		
Settlement fee income	161,744	127,781
International settlement fee income	103,565	84,908
Agency business fee income	62,113	18,394
Entrusted loan fee income	8,305	13,994
Bank card fee income	131,102	75,775
Others	200,922	101,136
Subtotal	667,751	421,988
<b>Fee and commission expenses</b>		
Bank card fee expenses	91,837	32,074
Others	55,201	43,961
Subtotal	147,038	76,035
<b>Net fee and commission income</b>	<b>520,713</b>	<b>345,953</b>

#### 6 Investment Income

<i>In RMB'000</i>	2007	2006
Gain on disposal of bond investments held for trading	4,352	1,113
Loss on disposal of bond investments designated at fair value through profit or loss	(31,408)	(10,554)
Gain on disposal of available-for-sale bond investments	40,017	61,512
Gain on disposal of available-for-sale equity investments	175,736	58,494
Dividend income	6,955	400
Realised gain/(loss) on derivative financial instruments	5,332	(11,342)
<b>Total</b>	<b>200,984</b>	<b>99,623</b>

## Notes to the Financial Statements

**7 Gains or Losses from Changes in Fair Values**

<i>In RMB'000</i>	2007	2006
Financial instruments held for trading	(459)	–
Financial assets designated at fair value through profit or loss	12,534	2,060
Financial liabilities designated at fair value through profit or loss	(10,925)	(12,080)
Derivative financial instruments	38,288	5,090
Investment properties	42,733	113,571
<b>Total</b>	<b>82,171</b>	<b>108,641</b>

**8 Other Net Income**

<i>In RMB'000</i>	2007	2006
Gain on disposal of property and equipment, net	21,011	2,597
(Loss)/gain on disposal of investment properties	(6,311)	41,266
Rental income	65,994	48,098
Gain on disposal of repossessed assets, net	23,218	9,975
Provision against litigation claims	23,998	–
Others	86,892	75,896
<b>Total</b>	<b>214,802</b>	<b>177,832</b>

**9 Operating Expenses**

<i>In RMB'000</i>	2007	2006
<b>Staff expenses</b>		
Salaries and bonus and allowance	1,599,861	1,081,202
Including: Cash-settled shared-based payments	33,800	9,000
Social insurance and supplementary pension contributions	364,568	249,244
Housing provident funds	69,842	50,096
Labour union and training	54,177	36,518
Others	41,882	54,724
Subtotal	2,130,330	1,471,784
<b>General and administrative expenses</b>		
Rental expenses	358,887	307,034
Computer system maintenance fees	138,120	66,797
Telecommunication and postage expenses	77,285	60,602
Water and electricity expenses	40,381	33,954
Publication and stationery expenses	151,377	134,322
Travel expenses	87,515	119,512
Marketing and public relations expenses	241,706	151,047
Motor vehicle expenses	134,107	72,523
Legal expenses	35,754	33,233
Professional fees (Note)	100,047	107,034
Sundry tax expenses	36,014	33,738
CBRC supervisory fee	44,473	47,400
Others	356,662	297,365
Subtotal	1,802,328	1,464,561
<b>Depreciation and amortisation</b>		
Depreciation of property and equipment	260,561	260,508
Amortisation of intangible assets	14,275	14,898
Subtotal	274,836	275,406
<b>Total operating expenses</b>	<b>4,207,494</b>	<b>3,211,751</b>
<b>Including</b>		
Auditors' remuneration – audit service fees	4,700	10,250

Note: Included in the professional fees are amounts of RMB 40,333 thousand Yuan (2006: RMB 41,100 thousand Yuan) of consultancy fees payable to GE Management Technology Consulting (Shanghai) Co., Ltd.

## 10 Impairment Loss of Assets

<i>In RMB'000</i>	2007						
	Balance at beginning of the year	Charge for the year	Amounts written off	Recovery of loans written off previously	Unwinding of discounts of impairment provisions	Other movements	Balance at end of the year
Provision for decline in value of precious metals	-	61	-	-	-	-	61
Impairment provision for placement of deposits with other financial institutions (Note 14)	67,425	361	(1,000)	-	-	-	66,786
Impairment provision for funds loaned to other financial institutions (Note 15)	324,985	8,283	(17,498)	-	-	(5,873)	309,897
Impairment provision for reverse repurchase agreements (Note 16)	27,550	2,999	-	-	-	-	30,549
Impairment provision for loans and advances (Note 19)	6,937,141	1,946,243	(2,301,981)	34,061	(518,592)	(72,908)	6,023,964
Impairment provision for available-for-sale financial assets (Note 20)	440,275	30,000	-	-	-	-	470,275
Provision for decline in value of repossessed assets (Note 26)	220,008	14,419	-	-	-	(5,814)	228,613
Impairment provision for other assets	188,891	51,393	-	-	-	(1,836)	238,448
<b>Total</b>	<b>8,206,275</b>	<b>2,053,759</b>	<b>(2,320,479)</b>	<b>34,061</b>	<b>(518,592)</b>	<b>(86,431)</b>	<b>7,368,593</b>

<i>In RMB'000</i>	2006						
	Balance at beginning of the year	Charge for the year	Amounts written off	Recovery of loans written off previously	Unwinding of discounts of impairment provisions	Other movements	Balance at end of the year
Impairment provision for placement of deposits with other financial institutions (Note 14)	76,827	6,113	(15,515)	-	-	-	67,425
Impairment provision for funds loaned to other financial institutions (Note 15)	340,341	13,601	(25,830)	-	-	(3,127)	324,985
Impairment provision for reverse repurchase agreements (Note 16)	27,550	-	-	-	-	-	27,550
Impairment provision for loans and advances (Note 19)	6,232,552	1,863,719	(563,956)	2,398	(560,421)	(37,151)	6,937,141
Impairment provision for available-for-sale financial assets (Note 20)	431,395	10,402	-	-	-	(1,522)	440,275
Provision for decline in value of repossessed assets (Note 26)	171,827	49,198	-	-	-	(1,017)	220,008
Impairment provision for other assets	169,996	43,184	(23,253)	-	-	(1,036)	188,891
<b>Total</b>	<b>7,450,488</b>	<b>1,986,217</b>	<b>(628,554)</b>	<b>2,398</b>	<b>(560,421)</b>	<b>(43,853)</b>	<b>8,206,275</b>

## Notes to the Financial Statements

**11 Income Tax Expense**

<i>In RMB'000</i>	<b>2007</b>	2006
<b>Current tax</b>		
Charge for the year	<b>1,216,465</b>	692,720
Additional charge for prior years	<b>24,171</b>	15,438
<b>Deferred income tax</b>		
Impact of changes in tax rates	<b>(117,288)</b>	–
Other movements	<b>(1,476)</b>	(2,300)
	<b>1,121,872</b>	705,858

Deferred tax impact on the items recorded in shareholders' equity during the year

<i>In RMB'000</i>	<b>2007</b>	2006
Changes in fair value	<b>(23,819)</b>	13,236

The reconciliation of income tax expense applicable to profit before tax at the statutory tax rate of 33% to income tax expense at the Company's effective income tax rate is as follows:

<i>In RMB'000</i>	<b>2007</b>	2006
Profit before tax	<b>3,771,775</b>	2,169,244
Income tax at the statutory rate of 33%	<b>1,244,686</b>	715,851
Additional charge for prior years	<b>24,171</b>	15,438
Non-deductible expenses	<b>5,241</b>	79,487
Non-taxable income	<b>(152,226)</b>	(104,918)
<b>Income tax expense</b>	<b>1,121,872</b>	705,858

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and became effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. The income tax rate applicable to the branches in Shenzhen, Zhuhai and Haikou will progressively increase to the tax rate of 25% in five years. The income tax rate applicable to the branches in other regions will decrease from 33% to 25% effective from 1 January 2008. The change in net deferred tax asset because of the change in corporate income tax rate has been measured and recognised in the income tax expense of the year.

## 12 Earnings per Share

The Company's basic earnings per share is calculated as follows:

<i>In RMB'000</i>	2007	2006
Net profit attributable to ordinary shareholders of the Company	2,649,903	1,463,386
The weighted average number of ordinary shares outstanding (Note)	2,093,438	2,086,758
Basic earnings per share (RMB Yuan)	1.27	0.70

The Company's diluted earnings per share is calculated as follows:

<i>In RMB'000</i>	2007	2006
Net profit attributable to ordinary shareholders of the Company	2,649,903	1,463,386
The weighted average number of ordinary shares outstanding (Note)	2,093,438	2,086,758
Dilutive effect – weighted average number of ordinary shares Warrants	74,140	–
Adjusted weighted average number of ordinary shares outstanding	2,167,578	2,086,758
Diluted earnings per share (RMB Yuan)	1.22	0.70

*Note: After the Company has distributed 140,936 thousand shares in June 2007, the number of ordinary shares outstanding has increased to 2,086,758 thousand. As a result, the earnings per share for the year ended 31 December 2006 presented are re-calculated by the adjusted number of shares.*

No changes occurred after the balance sheet date but before the financial statements are authorised for issue.

## 13 Cash on Hand and due from the Central Bank

<i>In RMB'000</i>	31 December 2007	31 December 2006
Cash on hand	1,062,241	909,080
Statutory reserve with the Central Bank – RMB	28,894,261	14,693,303
Statutory reserve with the Central Bank – foreign currency	327,038	204,109
Unrestricted balance with the Central Bank	10,436,341	10,475,761
Other deposits with the Central Bank – fiscal deposits	6,506	5,923
<b>Total</b>	<b>40,726,387</b>	<b>26,288,176</b>

Based on the related RMB and foreign currency deposits, the Company places respective statutory reserves with the Central Bank in accordance with the requirements from the People's Bank of China. These reserve deposits are not available for use in the Company's daily operations.

Fiscal deposits represent the amounts received from government-related bodies that are required to be deposited with the Central Bank according to the relevant regulations.

## Notes to the Financial Statements

**14 Placement of Deposits with other Financial Institutions****Analysed by location and counterparty**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Domestic banks	<b>2,273,251</b>	2,341,711
Other domestic financial institutions	<b>68,150</b>	76,762
Overseas banks	<b>1,739,075</b>	729,955
Subtotal	<b>4,080,476</b>	3,148,428
Less: Impairment provision (Note 10)	<b>(66,786)</b>	(67,425)
<b>Total</b>	<b>4,013,690</b>	3,081,003

As at 31 December 2006, included in placement of deposits with other financial institutions are amounts of RMB 19,722 thousand Yuan that are frozen as a result of bills in dispute. The corresponding balance as at 31 December 2007 was nil.

As at 31 December 2006, included in placement of deposits with other financial institutions are amounts of RMB 211,016 thousand Yuan that were pledged for certain loans. The corresponding balance as at 31 December 2007 was nil.

**15 Funds Loaned to other Financial Institutions****Analysed by location and counterparty**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Domestic banks	<b>687,940</b>	808,553
Domestic financial companies	<b>48,550</b>	49,000
Domestic trust investment companies	<b>80,511</b>	161,546
Overseas banks	<b>2,135,552</b>	2,675,062
Subtotal	<b>2,952,553</b>	3,694,161
Less: Impairment provision (Note 10)	<b>(309,897)</b>	(324,985)
<b>Total</b>	<b>2,642,656</b>	3,369,176

**16 Reverse Repurchase Agreements and Repurchase Agreements****Analysed by counterparty**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
<b>Reverse repurchase agreements analysed by counterparty</b>		
Banks	<b>22,499,511</b>	10,392,406
Non-bank financial institutions	<b>11,299,963</b>	906,912
Subtotal	<b>33,799,474</b>	11,299,318
Less: Impairment provision (Note 10)	<b>(30,549)</b>	(27,550)
<b>Total</b>	<b>33,768,925</b>	11,271,768
<b>Repurchase agreements analysed by counterparty</b>		
Banks	<b>11,099,633</b>	460,530
Non-bank financial institutions	<b>5,367,949</b>	280,480
<b>Total</b>	<b>16,467,582</b>	741,010



## 16 Reverse Repurchase Agreements and Repurchase Agreements (Continued)

### Analysed by collateral

<i>In RMB'000</i>	31 December 2007	31 December 2006
<b>Reverse repurchase agreements analysed by collateral</b>		
Securities	551,722	2,595,105
Bills	22,470,502	931,713
Loans	10,777,250	7,772,500
Subtotal	33,799,474	11,299,318
Less: Impairment provision (Note 10)	(30,549)	(27,550)
<b>Total</b>	<b>33,768,925</b>	<b>11,271,768</b>
<b>Repurchase agreements analysed by collateral</b>		
Securities	14,110,800	–
Bills	2,356,782	460,530
Loans	–	280,480
<b>Total</b>	<b>16,467,582</b>	<b>741,010</b>

### Fair value of collateral

Under certain reverse repurchase agreements, the Company has held collateral that is permitted to be sold or re-pledged in the absence of default by the owners of the collateral. At the balance sheet date, the fair values of the collateral held on such terms are as follows:

<i>In RMB'000</i>	31 December 2007		31 December 2006	
	Amount of reverse repurchase agreements	Fair value of collateral	Amount of reverse repurchase agreements	Fair value of collateral
Securities	–	–	1,600,000	1,641,954
Bills	11,425,106	11,425,106	392,438	392,438
Loans	10,777,250	10,777,250	6,567,000	6,567,000
<b>Total</b>	<b>22,202,356</b>	<b>22,202,356</b>	<b>8,559,438</b>	<b>8,601,392</b>

Of which, the above fair value of collateral included bills amounting to RMB 1,393,049 thousand Yuan (31 December 2006: Nil) that were re-pledged at year end. The Company has an obligation to return such collateral.

## 17 Financial Assets/Financial Liabilities at Fair Value through Profit or Loss

### Financial assets at fair value through profit or loss

<i>In RMB'000</i>	31 December 2007	31 December 2006
Bonds held for trading	276,802	37,566
Financial assets designated at fair value through profit or loss	1,200,823	389,792
<b>Total</b>	<b>1,477,625</b>	<b>427,358</b>

<i>In RMB'000</i>	31 December 2007	31 December 2006
<b>Bond investments analysed by issuer</b>		
Governments and the Central Bank	816,669	–
Policy banks	616,136	–
Other banks and non-bank financial institutions	44,820	427,358
<b>Total</b>	<b>1,477,625</b>	<b>427,358</b>

## Notes to the Financial Statements

**17 Financial Assets/Financial Liabilities at Fair Value through Profit or Loss** (Continued)**Financial liabilities at fair value through profit or loss**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Structure deposits held for trading	–	37,566
Financial liabilities designated at fair value through profit or loss	<b>1,246,657</b>	446,185
<b>Total</b>	<b>1,246,657</b>	483,751

In the opinion of management, there are no significant restrictions on realizing the financial assets at fair value through profit or loss.

As at 31 December 2007, the Company designated financial liabilities of RMB 1,246,657 thousand Yuan (31 December 2006: RMB 446,185 thousand Yuan) as at fair value through profit or loss upon their initial recognition. The amount of change in their total fair value which is not attributable to changes in a benchmark interest rate is not significant. The difference between the carrying amount and the amount that the Company would be contractually required to pay at maturity to the holder of these financial liabilities is RMB 31,506 thousand Yuan (31 December 2006: RMB 7,617 thousand Yuan).

**18 Derivative Financial Instruments**

A derivative is a financial instrument, the value of which is derived from the value of another “underlying” financial instrument, an index or some other variables. Typically, an “underlying” financial instrument is a share, commodity or bond price, an index value or an exchange or interest rate. The Company uses derivative financial instruments such as forward contracts, futures contracts, swaps and options.

The notional amount of a derivative represents the amount of underlying asset upon which the value of the derivative is based. It indicates the volume of business transacted by the Company but does not reflect the risk.

The fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

At each balance sheet date, the Company has positions in the following types of derivatives:

<i>In RMB'000</i>	<b>31 December 2007</b>					
	Notional amounts with remaining lives of				Fair value	
	Up to 3 months	3 months to 1 year	1 to 5 years	Total	Assets	Liabilities
<b>Foreign currency derivative instruments</b>						
Currency forward contracts	5,847,222	5,077,180	–	10,924,402	166,122	(139,604)
<b>Interest rate derivative instruments</b>						
Interest rate swap contracts	–	–	170,000	170,000	–	(1,553)
<b>Equity derivative instruments</b>						
Equity option contracts	805,824	224,966	1,531,691	2,562,481	71,417	(76,149)
Equity swap contracts	–	482,036	–	482,036	16,410	–
<b>Other derivative instruments</b>						
	–	1,482,337	–	1,482,337	37,867	(37,867)
<b>Total</b>	<b>6,653,046</b>	<b>7,266,519</b>	<b>1,701,691</b>	<b>15,621,256</b>	<b>291,816</b>	<b>(255,173)</b>

31 December 2006

<i>In RMB'000</i>	31 December 2006					
	Notional amounts with remaining lives of				Fair value	
	Up to 3 months	3 months to 1 year	1 to 5 years	Total	Assets	Liabilities
<b>Foreign currency derivative instruments</b>						
Currency forward contracts	–	2,193,112	1,963,973	4,157,085	15,068	(13,079)
<b>Interest rate derivative instruments</b>						
Interest rate swap contracts	–	448,257	22,611	470,868	3	(7,344)
<b>Equity derivative instruments</b>						
Equity option contracts	–	–	224,966	224,966	7,692	(7,692)
<b>Total</b>	–	<b>2,641,369</b>	<b>2,211,550</b>	<b>4,852,919</b>	<b>22,763</b>	<b>(28,115)</b>

As at 31 December 2007 and 31 December 2006, no derivatives were designated as hedging instruments.

## 19 Loans and Advances

### i Analysed by corporations and individuals

<i>In RMB'000</i>	31 December 2007	31 December 2006
<b>Loans and advances to corporations</b>		
Loans	150,490,884	126,797,390
Discounted bills	7,780,001	16,473,659
Subtotal	158,270,885	143,271,049
<b>Loans and advances to individuals</b>		
Credit cards	2,010,827	544,134
Residential mortgages	59,297,346	35,821,105
Others	2,234,540	2,545,659
Subtotal	63,542,713	38,910,898
Total loans and advances	221,813,598	182,181,947
Less: Loan impairment provisions (Note 19vi)	(6,023,964)	(6,937,141)
<b>Loans and advances, net</b>	<b>215,789,634</b>	<b>175,244,806</b>

As at 31 December 2006, loans and advances to customers included loans amounting to RMB 693,912 thousand Yuan that were pledged under repurchase agreements. Furthermore, as at 31 December 2006, discounted bills amounting to RMB 460,530 thousand Yuan were pledged under repurchase agreements. The corresponding balances as at 31 December 2007 were nil.

### ii Analysed by industry

<i>In RMB'000</i>	31 December 2007	31 December 2006
Agriculture, husbandry and fisheries	506,927	612,101
Extraction (Heavy industry)	2,812,800	2,136,750
Manufacturing (Light industry)	55,407,762	46,632,865
Energy	7,832,400	9,075,773
Transportation, storage and communication	12,663,872	11,652,194
Commercial	26,296,722	27,506,812
Real estate	14,411,307	12,742,637
Service, technology, culture and sanitary industries	29,969,369	24,628,229
Construction	7,340,077	7,290,741
Others	64,572,362	39,903,845
Total loans and advances	221,813,598	182,181,947
Less: Loan impairment provisions (Note 19vi)	(6,023,964)	(6,937,141)
<b>Loans and advances, net</b>	<b>215,789,634</b>	<b>175,244,806</b>

### iii Analysed by types of collateral held or other credit enhancements

<i>In RMB'000</i>	31 December 2007	31 December 2006
Unsecured	31,864,556	25,312,952
Guaranteed	62,376,974	58,903,914
Secured by collateral	119,792,067	81,491,422
of which: secured by mortgages	89,703,166	59,026,322
secured by monetary assets	30,088,901	22,465,100
Subtotal	214,033,597	165,708,288
Discounted bills	7,780,001	16,473,659
Total loans and advances	221,813,598	182,181,947
Less: Loan impairment provisions (Note 19vi)	(6,023,964)	(6,937,141)
<b>Loans and advances, net</b>	<b>215,789,634</b>	<b>175,244,806</b>

## Notes to the Financial Statements

**19 Loans and Advances** (Continued)**iv Ageing analysis of past due loans**

<i>In RMB'000</i>	31 December 2007				Total
	Overdue by 1 to 90 days, inclusive	Overdue by 90 days to 1 year, inclusive	Overdue by 1 to 3 years, inclusive	Overdue by more than 3 years	
Unsecured	239,346	46,310	100,395	25,132	411,183
Guaranteed	120,429	126,920	2,527,372	3,996,214	6,770,935
Secured by collateral	2,265,619	836,882	1,449,149	2,724,078	7,275,728
of which: secured by mortgages	1,977,097	559,370	1,029,084	1,881,857	5,447,408
secured by monetary assets	288,522	277,512	420,065	842,221	1,828,320
<b>Total</b>	<b>2,625,394</b>	<b>1,010,112</b>	<b>4,076,916</b>	<b>6,745,424</b>	<b>14,457,846</b>

<i>In RMB'000</i>	31 December 2006				Total
	Overdue by 1 to 90 days, inclusive	Overdue by 90 days to 1 year, inclusive	Overdue by 1 to 3 years, inclusive	Overdue by more than 3 years	
Unsecured	181,290	40,501	20,466	66,785	309,042
Guaranteed	228,442	584,591	4,206,377	4,680,913	9,700,323
Secured by collateral	1,788,730	714,232	2,020,575	2,071,676	6,595,213
of which: secured by mortgages	1,579,564	348,521	1,302,454	1,721,720	4,952,259
secured by monetary assets	209,166	365,711	718,121	349,956	1,642,954
<b>Total</b>	<b>2,198,462</b>	<b>1,339,324</b>	<b>6,247,418</b>	<b>6,819,374</b>	<b>16,604,578</b>

Overdue loans refer to the loans with either principal or interest being overdue by one day or more.

**v Analysed by geographical region**

<i>In RMB'000</i>	31 December 2007	31 December 2006
Southern China	78,390,451	65,658,931
Eastern China	78,066,203	62,993,976
Northern and north-eastern China	49,966,780	41,675,895
South-western China	14,360,528	10,860,686
Offshore businesses	1,029,636	992,459
Total loans and advances	221,813,598	182,181,947
Less: Loan impairment provisions (Note 19vi)	(6,023,964)	(6,937,141)
<b>Loans and advances, net</b>	<b>215,789,634</b>	<b>175,244,806</b>

**vi Movements of the impairment provisions for loans and advances**

<i>In RMB'000</i>	2007			2006		
	Individual	Collective	Total	Individual	Collective	Total
Balance at beginning of the year	6,452,271	484,870	6,937,141	5,954,274	278,278	6,232,552
Charge for the year	1,380,948	565,295	1,946,243	1,654,812	208,907	1,863,719
Amounts written off	(2,202,225)	(99,756)	(2,301,981)	(561,641)	(2,315)	(563,956)
Reversal for the year						
Recovery of loans written off previously	34,061	–	34,061	2,398	–	2,398
Unwinding of discounts of provisions for impaired loans and advances	(518,592)	–	(518,592)	(560,421)	–	(560,421)
Exchange differences	(72,908)	–	(72,908)	(37,151)	–	(37,151)
<b>Balance at end of the year (Note 10)</b>	<b>5,073,555</b>	<b>950,409</b>	<b>6,023,964</b>	<b>6,452,271</b>	<b>484,870</b>	<b>6,937,141</b>

## 20 Available-for-sale Financial Assets

<i>In RMB'000</i>	31 December 2007	31 December 2006
<b>Bond investments analysed by issuer</b>		
Governments and the Central Bank	10,657,828	11,688,183
Policy banks	6,621,821	6,047,384
Other banks and non-bank financial institutions	302,851	234,986
Corporations	88,452	-
Less: Impairment provisions (Note 10)	(30,000)	-
Subtotal	17,640,952	17,970,553
Equity investments (Note 20i)		
Tradable shares	15,329	78,456
Non-tradable shares (Note)	609,235	609,235
Less: Impairment provisions (Note 10)	(440,275)	(440,275)
Subtotal	184,289	247,416
<b>Total available-for-sale financial assets</b>	<b>17,825,241</b>	<b>18,217,969</b>

Note: Certain available-for-sale unlisted equity investments which do not have any quoted market prices and whose fair values cannot be reliably measured are stated at cost.

### i Equity investments

<i>Company</i>	<i>In RMB'000</i>	Percentage of share held	31 December 2007	31 December 2006
Shenzhen Yuan Sheng Industrial Co., Ltd. (Note)		100.00%	507,348	507,348
China UnionPay Co., Ltd		3.03%	50,000	50,000
Gintian Industry (Group) Co., Ltd.		2.03%	9,662	9,662
China Vanke Co., Ltd.		-	-	58,909
Hainan Pearl River Holdings Co., Ltd.		0.27%	9,650	9,650
Shenzhen Hongkai (Group) Co., Ltd.		0.30%	12,770	4,276
Shenzhen Baoheng (Group) Co., Ltd.		-	-	14,262
Shenzhen Fountain Corporation		0.04%	2,559	1,009
Hainan Wuzhou Travel Co., Ltd.		3.70%	5,220	5,220
Meizhou Polyester (Group) Co.		0.41%	1,100	1,100
Shenzhen Central South China Industrial Co.		4.10%	2,500	2,500
Hainan Junhe Travel Co., Ltd.		9.30%	2,800	2,800
Guangdong Sanxing Enterprises (Group) Co., Ltd.		0.05%	500	500
Hainan Baiyunshan Co., Ltd.		0.91%	1,000	1,000
Hainan Saige Co., Ltd.		0.56%	1,000	1,000
Hainan First Investment Co., Ltd.		0.22%	500	500
Hainan Zhonghailian Real Estate Co., Ltd.		0.74%	1,000	1,000
Shenzhen Jiafeng Textile Industrial Co., Ltd.		13.82%	16,725	16,725
SWIFT		0.01%	230	230
Total			624,564	687,691
Less: Impairment provisions (Note 10)			(440,275)	(440,275)
<b>Long-term equity investments, net</b>			<b>184,289</b>	<b>247,416</b>

Note: In the opinion of management, Shenzhen Yuan Sheng Industrial Co., Ltd. ("Yuan Sheng") is in the process of disposing of its assets and its financial impact to the Company's overall financial position is not material. Accordingly, the financial statements of Yuan Sheng have not been consolidated into the financial statements of the Company.

## Notes to the Financial Statements

**21 Held-to-maturity Investments**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
<b>Bond investments analysed by issuer</b>		
Governments and the Central Bank	<b>9,423,912</b>	9,971,003
Policy banks	<b>5,738,760</b>	6,409,398
Other banks and non-bank financial institutions	<b>319,472</b>	735,885
Corporations	<b>344,854</b>	314,318
<b>Total</b>	<b>15,826,998</b>	17,430,604
<b>Fair value</b>	<b>15,246,058</b>	17,321,907

As at 31 December 2007, included in the bond investments are amounts of RMB 1,124,046 thousand Yuan (31 December 2006: RMB 2,864,200 thousand Yuan), and RMB 14,555,660 thousand Yuan (31 December 2006: Nil) that were pledged for certain loan guarantee contracts and repurchase agreements, respectively.

There are no changes in the assessment of the Company's intention and ability to hold the investments to maturity.

**22 Receivables-bond Investments**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
PBOC bills	<b>13,450,000</b>	-

The PBOC bills are financial assets with fixed or determinable payments that are not quoted in an active market.

**23 Property and Equipment**

<i>In RMB'000</i>	<b>2007</b>				<b>Balance at end of the year</b>
	<b>Balance at beginning of the year</b>	<b>Addition</b>	<b>Transfer from construction in progress</b>	<b>Subtraction</b>	
<b>At cost</b>					
Properties and buildings	<b>1,518,063</b>	<b>53,708</b>	-	<b>(35,565)</b>	<b>1,536,206</b>
Transportation vehicles	<b>218,195</b>	<b>6,535</b>	-	<b>(129,495)</b>	<b>95,235</b>
Computers	<b>601,519</b>	<b>134,271</b>	<b>1,114</b>	<b>(35,972)</b>	<b>700,932</b>
Electronic appliances	<b>269,035</b>	<b>49,125</b>	<b>10,157</b>	<b>(20,685)</b>	<b>307,632</b>
Owner-occupied property improvement	<b>301,766</b>	<b>2,489</b>	<b>25,139</b>	<b>(10,549)</b>	<b>318,845</b>
Leasehold improvement	<b>484,551</b>	<b>46,838</b>	<b>39,713</b>	<b>(43,827)</b>	<b>527,275</b>
<b>Total</b>	<b>3,393,129</b>	<b>292,966</b>	<b>76,123</b>	<b>(276,093)</b>	<b>3,486,125</b>
<b>Accumulated depreciation</b>					
Properties and buildings	<b>373,005</b>	<b>51,728</b>	-	<b>(11,657)</b>	<b>413,076</b>
Transportation vehicles	<b>171,586</b>	<b>17,321</b>	-	<b>(115,569)</b>	<b>73,338</b>
Computers	<b>413,418</b>	<b>83,560</b>	-	<b>(25,849)</b>	<b>471,129</b>
Electronic appliances	<b>182,440</b>	<b>32,609</b>	-	<b>(11,309)</b>	<b>203,740</b>
Owner-occupied property improvement	<b>225,340</b>	<b>21,434</b>	-	<b>(3,485)</b>	<b>243,289</b>
Leasehold improvement	<b>333,400</b>	<b>53,909</b>	-	<b>(15,850)</b>	<b>371,459</b>
<b>Total</b>	<b>1,699,189</b>	<b>260,561</b>	-	<b>(183,719)</b>	<b>1,776,031</b>
<b>Net book value</b>	<b>1,693,940</b>				<b>1,710,094</b>

## 23 Property and Equipment (Continued)

In RMB'000	2006				
	Balance at beginning of the year	Addition	Transfer from construction in progress	Subtraction	Balance at end of the year
<b>At cost</b>					
Properties and buildings	1,485,628	91,539	–	(59,104)	1,518,063
Transportation vehicles	211,994	9,878	–	(3,677)	218,195
Computers	560,923	64,331	99	(23,834)	601,519
Electronic appliances	238,404	30,857	3,566	(3,792)	269,035
Owner-occupied property improvement	290,337	6,035	5,487	(93)	301,766
Leasehold improvement	451,492	22,147	17,090	(6,178)	484,551
<b>Total</b>	<b>3,238,778</b>	<b>224,787</b>	<b>26,242</b>	<b>(96,678)</b>	<b>3,393,129</b>
<b>Accumulated depreciation</b>					
Properties and buildings	333,167	40,321	–	(483)	373,005
Transportation vehicles	146,674	28,392	–	(3,480)	171,586
Computers	375,364	60,246	–	(22,192)	413,418
Electronic appliances	149,631	35,576	–	(2,767)	182,440
Owner-occupied property improvement	198,399	26,941	–	–	225,340
Leasehold improvement	269,289	69,032	–	(4,921)	333,400
<b>Total</b>	<b>1,472,524</b>	<b>260,508</b>	<b>–</b>	<b>(33,843)</b>	<b>1,699,189</b>
<b>Net book value</b>	<b>1,766,254</b>				<b>1,693,940</b>

As at 31 December 2007, the original cost and net book value of properties and buildings amounting to RMB 130,831 thousand Yuan (31 December 2006: RMB 181,058 thousand Yuan) and RMB 87,453 thousand Yuan (31 December 2006: RMB 128,870 thousand Yuan), respectively are of no registration certificates of property right, but are in use by the Company.

## 24 Investment Properties

In RMB'000	31 December 2007	31 December 2006
Balance at beginning of the year	460,656	692,636
Additions during the year	–	695
Disposals during the year	(25,251)	(292,192)
Fair value changes recognised in the income statement	42,733	113,571
Transferred to owner-occupied properties during the year	(37,040)	(54,054)
<b>Balance at end of the year</b>	<b>441,098</b>	<b>460,656</b>

The Company's investment properties are mainly properties and buildings, which are rented to third parties in the form of operating leasing. The investment properties are situated in locations where there are active property markets and the fair value of the investment properties can be reliably determinable on a continuing basis. Accordingly, management decided to adopt the fair value model for subsequent measurement of the investment properties, which are valued by independent professional valuers on, at least, an annual basis. The valuation as at 31 December 2007 was performed by Shenzhen Guozi Land and Real Estate Valuation Co., Ltd. In connection with this, the valuation was carried out by qualified persons who are members of the Shenzhen Institute of Real Estate Appraisers. Certain investment properties were transferred to owner-occupied properties mainly because the rental agreements of these properties expired during the year.

The gross rental income earned from the investment properties during the year amounted to RMB 45,377 thousand Yuan (2006: RMB 39,125 thousand Yuan). The total direct operating expense (including repairs and maintenance expenses) for the investment properties, with or without generating rental income during the year, was RMB 3,284 thousand Yuan (2006: RMB 4,958 thousand Yuan).



## Notes to the Financial Statements

## 25 Deferred Tax Assets, Net

	2007			
	Balance at beginning of the year	Recognised in the income statement	Recognised directly in equity	Balance at end of the year
<i>In RMB'000</i>				
<b>Deferred tax assets, net arising from</b>				
Loan impairment provision	1,002,644	(29,088)	–	973,556
Tax losses deducted against taxable profits of different tax rates	(211,652)	157,517	–	(54,135)
Others	(37,730)	(9,665)	23,819	(23,576)
<b>Total</b>	<b>753,262</b>	<b>118,764</b>	<b>23,819</b>	<b>895,845</b>

	2006			
	Balance at beginning of the year	Recognised in the income statement	Recognised directly in equity	Balance at end of the year
<i>In RMB'000</i>				
<b>Deferred tax assets, net arising from</b>				
Loan impairment provision	1,000,889	1,755	–	1,002,644
Tax losses deducted against taxable profits of different tax rates	(235,049)	23,397	–	(211,652)
Others	(1,642)	(22,852)	(13,236)	(37,730)
<b>Total</b>	<b>764,198</b>	<b>2,300</b>	<b>(13,236)</b>	<b>753,262</b>

## 26 Other Assets

## i Analysed by nature

<i>In RMB'000</i>	31 December 2007	31 December 2006
Interest receivable on investment securities	708,291	464,507
Interest receivable on loans and interbank placements and loans	577,892	332,113
Prepayments	93,963	80,080
Prepaid legal expenses	62,664	71,651
Reposessed assets (Note 26ii)	1,009,451	964,103
Construction in progress	10,809	9,521
Receivable of exercise of warrants	789,961	–
Others	130,910	160,240
<b>Total</b>	<b>3,383,941</b>	<b>2,082,215</b>

## ii Reposessed assets

<i>In RMB'000</i>	31 December 2007	31 December 2006
Land, properties and buildings	983,027	1,049,994
Equity investments	232,746	109,177
Others	22,291	24,940
<b>Total</b>	<b>1,238,064</b>	<b>1,184,111</b>
Less: Provision for decline in value (Note 10)	(228,613)	(220,008)
<b>Net value of reposessed assets</b>	<b>1,009,451</b>	<b>964,103</b>

During the year, the Company disposed of reposessed assets with their gross carrying value amounting to RMB 175,270 thousand Yuan (2006: RMB 62,597 thousand Yuan). The Company plans to dispose of the reposessed assets through auctions, bidding or transfers in future.

## 27 Placement of Deposits from other Financial Institutions

<i>In RMB'000</i>	31 December 2007	31 December 2006
Domestic banks	16,789,193	6,701,964
Domestic non-bank financial institutions	15,599,569	10,367,280
<b>Total</b>	<b>32,388,762</b>	<b>17,069,244</b>

## 28 Customer Deposits

<i>In RMB'000</i>	31 December 2007	31 December 2006
<b>Current deposits</b>		
Corporate	80,950,179	66,786,638
Individuals	16,518,537	14,528,101
Sub-total	97,468,716	81,314,739
<b>Fixed deposits</b>		
Corporate	76,783,023	58,877,218
Individuals	24,371,478	20,828,590
Sub-total	101,154,501	79,705,808
<b>Guarantee deposits</b>	74,801,665	63,665,947
<b>Fiscal deposits</b>	6,717,154	6,453,419
<b>Inward and outward remittances</b>	1,134,945	1,066,415
<b>Total</b>	<b>281,276,981</b>	<b>232,206,328</b>

## 29 Employee Benefits Payable

<i>In RMB'000</i>	2007			
	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year
Salary, bonus and allowance	453,633	1,599,861	(1,347,390)	706,104
including: cash-settled share-based payments	9,000	33,800	-	42,800
Social insurance and staff welfare	160,995	364,568	(306,256)	219,307
Housing provident funds	-	69,842	(69,842)	-
Staff union and training expenses	-	54,177	(54,177)	-
Others	-	41,882	(41,882)	-
<b>Total</b>	<b>614,628</b>	<b>2,130,330</b>	<b>(1,819,547)</b>	<b>925,411</b>

<i>In RMB'000</i>	2006			
	Balance at beginning of the year	Increase during the year	Payment made during the year	Balance at end of the year
Salary, bonus and allowance	283,280	1,081,202	(910,849)	453,633
including: cash-settled share-based payments	-	9,000	-	9,000
Social insurance and staff welfare	126,648	249,244	(214,897)	160,995
Housing provident funds	-	50,096	(50,096)	-
Staff union and training expenses	-	36,518	(36,518)	-
Others	-	54,724	(54,724)	-
<b>Total</b>	<b>409,928</b>	<b>1,471,784</b>	<b>(1,267,084)</b>	<b>614,628</b>

## Notes to the Financial Statements

**30 Other Liabilities**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Interest payable	<b>1,728,071</b>	942,538
Bank drafts	<b>712,635</b>	252,073
Financial guarantee contracts	<b>32,595</b>	32,996
Tax payable – other than income tax	<b>406,786</b>	226,909
Amounts pending for settlement and clearing	<b>91,552</b>	77,292
Amounts payable for bond redemption as intermediaries	<b>25,425</b>	12,444
Provision for litigation	<b>77,447</b>	55,449
Inactive deposit account balances	<b>62,367</b>	84,281
Accrued expenses	<b>90,511</b>	73,394
Amounts payable for acquisition of bonds	<b>250,000</b>	500,000
Dividends payable	<b>14,022</b>	22,214
Subscription monies of open-ended funds	<b>106,481</b>	12,531
Others	<b>223,029</b>	189,143
<b>Total</b>	<b>3,820,921</b>	2,481,264

**31 Share Capital**

As at 31 December 2007, the Company's registered, issued and fully paid share is 2,293,407 thousand, with RMB 1 Yuan each. The nature and the structure of the share capital are as follows:

<i>In RMB'000</i>	31 December 2006	%	Movement for the year	<b>31 December 2007</b>	%
<b>Restricted tradable shares</b>					
State-owned corporation shares	1,717	0.09%	2,909	<b>4,626</b>	0.20%
Domestic non-stated-owned corporation shares	186,640	9.59%	(3,326)	<b>183,314</b>	8.00%
Domestic individual shares	100	0.01%	443	<b>543</b>	0.02%
Foreign corporation shares	348,103	17.89%	–	<b>348,103</b>	15.18%
Total restricted tradable shares	536,560	27.58%	26	<b>536,586</b>	23.40%
<b>Unrestricted tradable shares</b>					
RMB ordinary shares	1,409,262	72.42%	347,559	<b>1,756,821</b>	76.60%
Total unrestricted tradable shares	1,409,262	72.42%	347,559	<b>1,756,821</b>	76.60%
<b>Total</b>	<b>1,945,822</b>	<b>100.00%</b>	<b>347,585</b>	<b>2,293,407</b>	<b>100.00%</b>

The Company's share reform scheme was approved at the shareholders' meeting held on 8 June 2007. In accordance with the scheme, based on the 1,409,362 thousand tradable shares and the statutory financial statements of 2006, the Company appropriated its retained earnings as stock dividends to all the tradable shareholders registered in the shareholders' register on the registration date under the share reform scheme. Each tradable shareholder obtains one share for every 10 shares. At the first trading date after the implementation of the share reform scheme, the original non-tradable shares of the Company's non-tradable shareholders were floated. This share reform scheme was implemented on 18 June 2007.

In accordance with the Measures for the Administration of the Share-trading Reform of Listed Companies, the original non-tradable shareholders of the Company promised no transfer or trading of the non-tradable shares held within 12 months since the day of acquiring the trading right. After the expiration of the above commitment term, the previous non-tradable shares trading through the stock exchange shall not be over 5% of the total shares within 12 months, and not over 10% within 24 months.

During the year, restricted tradable shares of 417 thousand held by Shenzhen Hongtu Co., Ltd. were judicially transferred to an individual.

### 31 Share Capital *(Continued)*

The state-owned China Orient Asset Management Corporation was transferred 2,909 thousand shares from a domestic non-stated-owned corporation during the year.

In addition, owing to the distribution of stock dividends under the share reform plan, exercise of warrants and stock purchases in the secondary market, the restricted tradable shares held by directors, supervisors and senior management of the Company increased by 26 thousand, in totality, during the year.

The increase in share capital during the year was because of the distribution of stock dividends and the exercise of warrants.

The Company has issued 313,014 thousand warrants in 2007, with an exercise price of RMB 19 Yuan for each share. As at 31 December 2007, a total amount of 206,649 thousand warrants were exercised. Of which, except for 58,441 thousand shares that were registered in January 2008, all the remaining shares had been registered during the year. In connection with the above changes in share capital, Ernst & Young Hua Ming had issued related capital verification reports with reference numbers of (2008) Yan Zi No. 60438538\_H01 and (2008) Yan Zi No. 60438538\_H02.

### 32 Reserves

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Statutory surplus reserve	<b>719,481</b>	454,491
General reserve	<b>2,715,704</b>	1,679,704
Cumulative changes in fair value of available-for-sale financial assets	<b>(60,120)</b>	76,787
Revaluation surplus on owner-occupied properties transferred to investment properties	<b>11,000</b>	760
<b>Total</b>	<b>3,386,065</b>	2,211,742

In accordance with the Company Law, the Company is required to appropriate 10% of its profit after tax to its statutory surplus reserve until the reserve balance reaches 50% of its registered capital. Subject to the approval of shareholders, the statutory surplus reserve may be used to offset accumulated losses, if any, and may also be converted into capital, provided that the balance of the statutory surplus reserve after such capitalisation is not less than 25% of the registered capital. The Company may also appropriate its profit after tax to the discretionary surplus reserve upon approval of the shareholders in general meetings.

As at 31 December 2006 and 31 December 2007, the amount of the surplus reserve represented the statutory surplus reserve.

Pursuant to the relevant regulations issued by the MOF, the Company is required to maintain a general reserve within equity, through the appropriation of net profit, which should not be less than 1% of the year end balance of its risk assets. The reserve is to be appropriated over a period of not more than five years, beginning in July 2005. As at 31 December 2007, the Company has met the above reserve requirement.

### 33 Unappropriated Profit

Pursuant to a board resolution on 20 March 2007, an appropriation of RMB 130,291 thousand based on 10% of the net profit as reported in the Company's statutory financial statements of 2006 was proposed and made to the statutory surplus reserve; and an appropriation of RMB 1,200,000 thousand Yuan was made to the general reserve. The above appropriations were approved at the Company's annual general meeting held on 15 June 2007.

Pursuant to the approval of shareholders on 8 June 2007, based on the 1,409,362 thousand tradable shares and the statutory financial statements of 2006, the Company appropriated its retained earnings as stock dividends to all the tradable shareholders registered in the shareholders' register on the registration date under the share reform scheme. Each tradable shareholder obtains one share for every 10 shares. The Company has issued 140,936 thousand shares in total. Simultaneously, the Company distributed a cash dividend of RMB 12,666 thousand Yuan to these shareholders on the same day.

Pursuant to a board resolution on 15 August 2007, an appropriation of RMB 112,398 thousand Yuan based on 10% of the net profit as reported in the Company's statutory financial statements of the first half of 2007 was proposed and made to the statutory surplus reserve; and an appropriation of RMB 900,000 thousand Yuan was made to the general reserve. The above appropriations were approved at the Company's shareholders' meeting held on 19 December 2007.

Pursuant to a board resolution on 19 March 2008, based on the audited profit for the year ended 31 December 2007, in addition to the above profit appropriations for the first half of 2007, the Company appropriated its net profit amounting to RMB 152,592 thousand Yuan and RMB 136,000 thousand Yuan to the statutory surplus reserve and the general reserve, respectively. These proposed appropriations are pending approval from shareholders at the forthcoming annual general meeting.

## Notes to the Financial Statements

**34 Note to the Statement of Cash Flows**

<i>In RMB'000</i>	<b>2007</b>	2006
Profit before tax	<b>3,771,775</b>	2,169,244
Adjustments to reconcile profit before tax to cash flow arising from operating activities		
<b>Non-cash items included in profit before tax and other adjustments</b>		
Depreciation of property and equipment	<b>260,561</b>	260,508
Impairment provision on loans	<b>1,946,243</b>	1,863,719
Interest income on impaired loans	<b>(518,592)</b>	(560,421)
Impairment provisions on other assets	<b>107,516</b>	122,498
Provision against litigation claims	<b>23,998</b>	–
Amortisation of long term prepayments	<b>17,495</b>	23,536
Amortisation of intangible assets	<b>14,275</b>	14,898
Unrealised net trading (gain)/loss of financial assets/liabilities at fair value through profit or loss	<b>(39,438)</b>	4,930
Gain on disposal of property and equipment	<b>(21,011)</b>	(2,597)
Interest income on debt investments	<b>(1,261,540)</b>	(837,853)
Dividend income from investment securities	<b>(6,955)</b>	(400)
Gain on disposal of investment securities	<b>(215,753)</b>	(120,006)
Loss/(gain) on disposal of investment properties	<b>6,311</b>	(41,266)
Changes in fair value of investment properties	<b>(42,733)</b>	(113,571)
<b>Net decrease/(increase) in operating assets</b>		
Deposits reserves with the Central Bank	<b>(14,324,470)</b>	(4,368,817)
Placement of deposits with other financial institutions	<b>(1,257,854)</b>	1,693,396
Funds loaned to other financial institutions	<b>(806,571)</b>	1,131,986
Reverse repurchase agreements	<b>(11,279,835)</b>	1,518,727
Financial assets at fair value through profit or loss	<b>(1,319,447)</b>	386,796
Loans and advances	<b>(42,083,861)</b>	(27,160,692)
Long term prepayments	<b>(29,763)</b>	(18,313)
Other assets	<b>(151,348)</b>	(81,779)
<b>Net increase/(decrease) in operating liabilities</b>		
Placement of deposits from other financial institutions	<b>15,319,518</b>	6,600,010
Interbank borrowings	<b>2,640,297</b>	–
Repurchase agreements	<b>15,726,572</b>	(428,543)
Financial liabilities at fair value through profit or loss	<b>989,964</b>	(196,000)
Customer deposits	<b>49,002,123</b>	30,327,653
Inward and outward remittances	<b>68,530</b>	62,873
Other liabilities	<b>1,619,879</b>	65,008
<b>Cash flows from operating activities</b>	<b>18,155,886</b>	12,315,524

## 35 Commitments and Contingent Liabilities

### Operating Lease commitments

#### Operating lease commitments-Company as lessee

The Company has entered into commercial lease on premises and equipment.

As at 31 December 2007 and 31 December 2006, the Company had minimum lease payments in respect of irrevocable operating leases to be paid as follows:

<i>In RMB'000</i>	31 December 2007	31 December 2006
Within one year	263,204	257,844
Between the second and fifth year, inclusive	627,439	603,810
Over five years	281,526	314,659
<b>Total</b>	<b>1,172,169</b>	<b>1,176,313</b>

#### Operating lease commitments-Company as lessor

The Company has entered into commercial property leases on its investment portfolio. All investment properties are leased out under operating leases. Future minimum rentals receivable under non-cancellable operating leases as at December 31, are as follows:

<i>In RMB'000</i>	31 December 2007	31 December 2006
Within one year	34,724	33,666
Between the second and fifth year, inclusive	29,342	39,602
Over five years	588	924
<b>Total</b>	<b>64,654</b>	<b>74,192</b>

### Credit commitments

<i>In RMB'000</i>	31 December 2007	31 December 2006
<b>Financial guarantee contracts</b>		
Bank acceptances	121,882,685	101,280,502
Guarantees issued	2,212,937	2,531,815
Letters of credit issued	1,912,162	1,720,642
Loan guarantee contracts	963,135	2,641,306
Sub-total	126,970,919	108,174,265
<b>Irrevocable loan commitments</b>		
Credit limit of credit cards	8,804,290	3,034,546
<b>Total</b>	<b>135,775,209</b>	<b>111,208,811</b>
<b>Credit risk weighted amounts of credit commitments</b>	<b>49,277,576</b>	<b>34,415,010</b>

Financial guarantee contracts commit the Company to make payments on behalf of customers upon the failure of the customers to perform the terms of the contracts.

Commitments to extend credit represent contractual commitments to make loans to customers. Commitments generally have fixed expiry dates. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

### Fiduciary transactions

<i>In RMB'000</i>	31 December 2007	31 December 2006
Entrusted deposits	(5,551,762)	(5,898,988)
Entrusted loans	5,551,762	5,898,988
Entrusted funding	(2,007,738)	-
Entrusted investments	2,007,738	-

Entrusted deposits represent funds that depositors have instructed the Company to use to make loans to third parties as designated by them. The credit risk remains with the depositors.

Entrusted funding and entrusted investments represent the investment and asset management services provided by the Company for the third parties in accordance with the agreed investment plan. The third parties provide funding for the related investments. Income from such investment activities are collected on behalf of and paid to the third parties according to the relevant contractual terms.

## Notes to the Financial Statements

**35 Commitments and Contingent Liabilities** (Continued)**Contingent liabilities****Legal proceedings**

As at 31 December 2007, the total claimed amount of the litigation cases of which the Company is the defendant was RMB 161 million Yuan (31 December 2006: RMB 188 million Yuan). These litigation cases are under legal proceedings. In the opinion of management, the Company has made adequate allowance for any probable losses based on the prevailing facts and circumstances.

Apart from the above pending litigation cases, during the current year, the liquidator of DeHeng Securities Co. Ltd. has requested the Company to repay RMB 0.26 billion Yuan and the liquidator of the China Southern Securities Co., Ltd has requested repayment of RMB 0.17 billion Yuan through court proceedings. The Company had received related repayment notices in prior years and opposed all such repayment requests. At year end, based on the legal opinion from an independent third-party lawyer, the Company had no immediate obligation to repay the monies.

**Redemption commitments of government bonds**

As an underwriting agent of the PRC Government, the Company underwrites certain PRC government bonds and sells the bonds to the general public. The Company is obliged to redeem the bonds at the discretion of the holders at any time prior to maturity. The redemption price for the bonds is based on the nominal value of the bonds plus any interest accrued up to the redemption date. As at 31 December 2007, the Company had underwritten and sold bonds with an accumulated amount of RMB 3.67 billion Yuan (31 December 2006: RMB 5.25 billion Yuan) to the general public which have not matured or been redeemed.

The MOF will not provide funding for the early redemption of these government bonds on a back-to-back basis but is obliged to repay the principal and the respective interest upon maturity.

As at 31 December 2007, the unexpired underwriting commitment of the PRC government bonds amounted to RMB 2.65 billion Yuan (31 December 2006: RMB 1.69 billion Yuan).

**36 Maturity Analysis of Assets and Liabilities**

A maturity analysis of the assets and liabilities of the Company as at 31 December 2007 was as follows:

In RMB'000	31 December 2007							Total
	Overdue/ On demand	Within 1 month	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	
<b>ASSETS</b>								
Cash on hand and due from the Central Bank	11,832,126	-	-	-	-	-	28,894,261	40,726,387
Precious metals	8,200	-	-	-	-	-	-	8,200
Amounts due from other financial institutions (Note 1)	2,191,196	20,283,485	14,507,930	2,952,660	490,000	-	-	40,425,271
Financial assets at fair value through profit or loss and derivative financial assets	-	720,993	149,154	748,642	100,652	50,000	-	1,769,441
Loans and advances	6,806,547	13,121,171	29,652,465	97,909,958	31,199,641	37,099,852	-	215,789,634
Available-for-sale financial assets	43,040	1,928,133	2,904,950	3,001,922	8,851,488	911,419	184,289	17,825,241
Held-to-maturity investments	-	-	109,424	1,075,462	8,803,074	5,839,038	-	15,826,998
Receivables – bond investments	-	-	-	-	13,450,000	-	-	13,450,000
Property and equipment	-	-	-	-	-	-	1,710,094	1,710,094
Other assets	947,990	1,118,653	810,358	36,629	122,674	45,502	1,827,745	4,909,551
<b>Total assets</b>	<b>21,829,099</b>	<b>37,172,435</b>	<b>48,134,281</b>	<b>105,725,273</b>	<b>63,017,529</b>	<b>43,945,811</b>	<b>32,616,389</b>	<b>352,440,817</b>
<b>LIABILITIES</b>								
Amounts due to other financial institutions (Note 2)	27,144,470	17,500,602	5,161,366	1,690,203	-	-	-	51,496,641
Financial liabilities at fair value through profit or loss and derivative financial liabilities	-	13,808	733,606	646,395	108,021	-	-	1,501,830
Customer deposits	106,115,991	40,340,274	48,667,576	68,583,447	17,569,378	315	-	281,276,981
Other liabilities	770,532	3,393,978	652,184	228,819	113,789	-	-	5,159,302
<b>Total liabilities</b>	<b>134,030,993</b>	<b>61,248,662</b>	<b>55,214,732</b>	<b>71,148,864</b>	<b>17,791,188</b>	<b>315</b>	<b>-</b>	<b>339,434,754</b>
Liquidity net value	(112,201,894)	(24,076,227)	(7,080,451)	34,576,409	45,226,341	43,945,496	32,616,389	13,006,063

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.



### 36 Maturity Analysis of Assets and Liabilities (Continued)

A maturity analysis of the assets and liabilities of the Company as at 31 December 2006 was as follows:

In RMB'000	31 December 2006							Undated	Total
	Overdue/ On demand	Within 1 month	Within 3 months	3 months to 1 year	1 to 5 years	Over 5 years			
<b>ASSETS</b>									
Cash on hand and due from the Central Bank	11,384,841	-	-	-	-	-	14,903,335	26,288,176	
Precious metals	-	-	-	-	-	-	-	-	
Amounts due from other financial institutions (Note 1)	2,294,028	3,332,332	9,736,293	1,914,294	445,000	-	-	17,721,947	
Financial assets at fair value through profit or loss and derivative financial assets	-	-	2,088	17,816	392,650	37,567	-	450,121	
Loans and advances	8,323,837	9,873,020	24,495,189	80,858,771	20,649,829	31,044,160	-	175,244,806	
Available-for-sale financial assets	-	1,547,999	2,143,633	8,102,969	4,470,288	1,705,664	247,416	18,217,969	
Held-to-maturity investments	-	1,651	119,684	2,824,636	6,036,547	8,448,086	-	17,430,604	
Property and equipment	-	-	-	-	-	-	1,693,940	1,693,940	
Other assets	959,285	10	470,312	300,644	24,232	846,514	849,464	3,450,461	
<b>Total assets</b>	<b>22,961,991</b>	<b>14,755,012</b>	<b>36,967,199</b>	<b>94,019,130</b>	<b>32,018,546</b>	<b>42,081,991</b>	<b>17,694,155</b>	<b>260,498,024</b>	
<b>LIABILITIES</b>									
Amounts due to other financial institutions (Note 2)	13,988,203	761,987	1,267,707	1,792,357	-	-	-	17,810,254	
Financial liabilities at fair value through profit or loss and derivative financial liabilities	-	-	28,050	388,704	57,546	37,566	-	511,866	
Customer deposits	89,233,066	33,020,086	42,348,112	52,858,605	14,709,735	36,724	-	232,206,328	
Other liabilities	1,149,400	390,734	988,965	577,626	206,239	59,572	-	3,372,536	
<b>Total liabilities</b>	<b>104,370,669</b>	<b>34,172,807</b>	<b>44,632,834</b>	<b>55,617,292</b>	<b>14,973,520</b>	<b>133,862</b>	<b>-</b>	<b>253,900,984</b>	
Liquidity net value	(81,408,678)	(19,417,795)	(7,665,635)	38,401,838	17,045,026	41,948,129	17,694,155	6,597,040	

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

## Notes to the Financial Statements

**37 Risk disclosure****Credit risk**

Credit risk primarily refers to the possibility that a bank's customers or counterparties will not be able or willing to fulfil their contractual obligations. The Company's credit risk mainly arises from the loans and advances to customers.

The Company has established a Credit Portfolio Management Committee, which approves and determines the Company's credit risk management strategies, credit risk preferences as well as its various credit risk management policies and standards. The Company has also formulated guidelines on corporate and retail credit policies across the Company and for specific industries. Furthermore, the Company has implemented a strategic customer categorisation management system, and set up a customer entry and exit mechanism to facilitate the sustainable development of credit underwriting business.

The Company implements a credit risk officer system, in which the Chief Credit Officer at the Head Office appoints credit officers to various business lines and branches. The credit officers directly report to the Chief Credit Officer, who is responsible for evaluating the performance of the credit officers and establishing an independent and transparent vertical credit risk management system.

The Company has formulated a complete set of operational procedures for credit approval and management. These procedures are being enforced across the Company. Credit management procedures for its corporate and retail loans comprise the processes of credit origination, credit review, credit approval, disbursement, post-disbursement monitoring, and collection. In addition, the Company has formulated the "Policies of Credit Underwriting", which defines the functions and responsibilities of different credit operational processes, and has enhanced the monitoring of the related compliance for improving the overall effective control of credit risk.

The Company has strengthened its early warning monitoring system for the credit business with measures applicable to the portfolio level and to individual customers, resulting to early detection and effective management of credit risks.

The Company sub-divides the credit asset risks into ten categories based on the five-tier loan classification system promulgated by the CBRC, namely, Normal One, Normal Two, Normal Three, Normal Four, Normal Five, Special Mention One, Special Mention Two, Substandard, Doubtful and Loss. Furthermore, a separate "Write-off" category has been added to the classification system. The Company applies different management policies to the loans in accordance with their respective loan categories.

Risks arising from financial guarantees and loan commitments are similar to those associated with loans and advances. These transactions are, therefore, subject to the same portfolio management and the same requirements for application and collateral as loans and advances to customers.

**i Maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

<i>In RMB'000</i>	<b>31 December 2007</b>	31 December 2006
Due from the Central Bank (excluding cash on hand)	<b>39,664,146</b>	25,379,096
Placement of deposits with other financial institutions	<b>4,013,690</b>	3,081,003
Funds loaned to other financial institutions	<b>2,642,656</b>	3,369,176
Financial assets at fair value through profit or loss	<b>1,477,625</b>	427,358
Derivative financial assets	<b>291,816</b>	22,763
Reverse repurchase agreements	<b>33,768,925</b>	11,271,768
Loans and advances	<b>215,789,634</b>	175,244,806
Available-for-sale financial assets	<b>17,825,241</b>	18,217,969
Held-to-maturity investments	<b>15,826,998</b>	17,430,604
Receivables – bond investments	<b>13,450,000</b>	–
Other assets	<b>2,565,957</b>	1,187,298
<b>Total</b>	<b>347,316,688</b>	255,631,841
Financial guarantee	<b>126,970,919</b>	108,174,265
Irrevocable loan commitments	<b>8,804,290</b>	3,034,546
<b>Maximum exposure to credit risk</b>	<b>483,091,897</b>	366,840,652

### 37 Risk disclosure (Continued)

#### Credit risk (Continued)

##### ii Risk concentration of the maximum exposure to credit risk

Credit risk is often greater when counterparties are concentrated in a single industry or geographic location or have comparable economic characteristics.

The majority of the loans and financial guarantee contracts of the Company are related to the local customers within Mainland China. However, different areas in the PRC have their own unique characteristics in terms of economic development. Therefore, each area in the PRC could present different credit risk.

Please refer to the Note 19 for an analysis of concentration of loans and advances by industry and geographical region.

##### iii Collateral and other credit enhancements

The amount and type of collateral required is determined by the Company based on its assessment of the credit risk of the counterparty. The Company has implemented guidelines regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For reverse repurchase transactions: bills, loans or securities
- For commercial lending: charges over real estate properties, inventories, shares and trade receivables
- For retail lending: mortgages over residential properties.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the provision for impairment losses.

##### iv Credit quality

The credit quality by class of financial asset (gross amount before deducting any impairment provision) of the Company is analysed as follows:

<i>In RMB'000</i>	31 December 2007			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Placement of deposits with other financial institutions	4,010,556	–	69,920	4,080,476
Funds loaned to other financial institutions	2,628,782	–	323,771	2,952,553
Reverse repurchase agreements	33,747,752	–	51,722	33,799,474
Financial assets at fair value through profit or loss	1,477,625	–	–	1,477,625
Loans and advances	206,938,684	265,602	14,609,312	221,813,598
Available-for-sale financial assets	17,597,912	–	73,040	17,670,952
Held-to-maturity investments	15,826,998	–	–	15,826,998
Receivables-bond investments	13,450,000	–	–	13,450,000
<b>Total</b>	<b>295,678,309</b>	<b>265,602</b>	<b>15,127,765</b>	<b>311,071,676</b>

<i>In RMB'000</i>	31 December 2006			
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Placement of deposits with other financial institutions	3,073,508	–	74,920	3,148,428
Funds loaned to other financial institutions	3,284,664	–	409,497	3,694,161
Reverse repurchase agreements	11,247,596	–	51,722	11,299,318
Financial assets at fair value through profit or loss	427,358	–	–	427,358
Loans and advances	165,296,130	802,855	16,082,962	182,181,947
Available-for-sale financial assets	17,970,553	–	–	17,970,553
Held-to-maturity investments	17,430,604	–	–	17,430,604
<b>Total</b>	<b>218,730,413</b>	<b>802,855</b>	<b>16,619,101</b>	<b>236,152,369</b>

## Notes to the Financial Statements

**37 Risk disclosure** (Continued)**Credit risk** (Continued)**iv Credit quality** (Continued)

Neither past due nor impaired loans and advances

At the balance sheet date, the aggregate amount of neither past due nor impaired loans and advances to customers are “pass” and “special mention” loans graded in accordance with the five-tier classification.

Past due but not impaired loans and advances

At the balance sheet date, ageing analyses of the past due but not yet impaired loans and advances are as follows:

<i>In RMB'000</i>	31 December 2007					Total	The fair value of the collateral
	Within 1 month	1 to 2 months	2 to 3 months	Over 3 months			
Corporate loans and advances	94,872	55,482	12,280	102,968	265,602	173,033	

<i>In RMB'000</i>	31 December 2006					Total	The fair value of the collateral
	Within 1 month	1 to 2 months	2 to 3 months	Over 3 months			
Corporate loans and advances	132,637	40,000	179,542	450,676	802,855	295,397	

Impaired loans and advances

Impaired loans and advances are defined as those loans and advances having objective evidence of impairment as a result of one or more events that occur after initial recognition, resulting in an impact on the estimated future cash flows of loans and advances that can be reliably estimated.

The fair value of the collateral that the Company holds relating to loans individually determined to be impaired at 31 December 2007 amounted to RMB 1,988 million Yuan (31 December 2006: RMB 1,931 million Yuan).

The carrying amount of loans and advances that would otherwise be past due or impaired whose terms have been renegotiated is as follows:

<i>In RMB'000</i>	31 December 2007	31 December 2006
Loans and advances	390,718	900,529

### 37 Risk disclosure (Continued)

#### Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due. The risk is attributable to any mismatch in amounts and terms between assets and liabilities. To limit the risk, management has arranged diversified funding sources, and monitors loans and deposit balances on a daily basis. The Company also maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. Furthermore, the Company performs stress testing regularly to assess and identify the actions that can meet the payment obligations under different critical scenarios.

At the balance sheet date, the remaining contractual maturity analysis of the Company's financial liabilities (based on contractual undiscounted cash flows) was as follows:

In RMB'000	31 December 2007							Total
	Overdue/ On demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	
Amounts due to other financial institutions (Note)	27,167,521	17,525,521	5,216,411	1,752,909	-	-	-	51,662,362
Financial liabilities at fair value through profit or loss and derivative financial liabilities	-	3,451,187	3,073,454	5,309,105	108,021	-	-	11,941,767
Customer deposits	106,168,886	40,621,695	49,282,780	70,122,182	20,188,968	318	-	286,384,829
Other financial liabilities	723,493	887,713	546,389	307,496	36,342	-	-	2,501,433
<b>Total undiscounted financial liabilities</b>	<b>134,059,900</b>	<b>62,486,116</b>	<b>58,119,034</b>	<b>77,491,692</b>	<b>20,333,331</b>	<b>318</b>	<b>-</b>	<b>352,490,391</b>

In RMB'000	31 December 2006							Total
	Overdue/ On demand	Within 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undated	
Amounts due to other financial institutions (Note)	13,988,203	765,614	1,274,330	1,807,248	-	-	-	17,835,395
Financial liabilities at fair value through profit or loss and derivative financial liabilities	-	1,761,248	122,874	2,637,541	57,546	37,566	-	4,616,775
Customer deposits	89,268,587	33,181,303	42,614,670	53,816,060	15,937,665	36,728	-	234,855,013
Other financial liabilities	1,149,399	189	532,689	61,279	34,759	59,295	-	1,837,610
<b>Total undiscounted financial liabilities</b>	<b>104,406,189</b>	<b>35,708,354</b>	<b>44,544,563</b>	<b>58,322,128</b>	<b>16,029,970</b>	<b>133,589</b>	<b>-</b>	<b>259,144,793</b>

Note: Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

#### Market risk

The Company is exposed to market risk primarily through long positions in interest rate and exchange rate products. Market risk may arise from the Company's trading and non-trading business activities. The aim of market risk management of the Company is to mitigate undue losses of income and equity, and simultaneously, to reduce the Company's exposure to the volatility inherent in financial instruments.

The Company's Risk Management Committee and the Asset and Liability Management Committee are responsible for setting up market risk management policies, establishing market risk management objectives, and determining market risk limits. The Asset and Liability Management Committee is responsible to control the volume, structure, interest rate and liquidity of the Company's business. The Company's Financial Information and Asset and Liability Management Department discharges the daily market risk monitoring function on behalf of the Asset and Liability Management Committee, including determination of reasonable levels of market risk exposures, monitoring the daily treasury operation, and proposing adjustments to the maturity profile of the assets and liabilities and the interest rate structure.

Gap analysis is the key method used by the Company to monitor the market risk of its non-trading business activities. This method measures the impact of interest rate changes on income, with interest-earning assets and interest-bearing liabilities grouped by their respective re-pricing bands for the calculation of the re-pricing gap. By multiplying this position with an assumed interest rate change, an approximate effect on the net interest income resulting from the assumed interest rate change is quantified.

## Notes to the Financial Statements

**37 Risk disclosure** (Continued)**Market risk** (Continued)

The market risk management information system is being developed for further improvement in market risk management measures.

Financial derivative transactions entered into by the Company primarily provide effective economic hedges to other financial instruments held by the Company for mitigation of interest and currency risks. In the opinion of management, as the market risk of the Company's trading business activities is not material, the Company has not separately disclosed quantitative information about exposure to market risk arising from the trading portfolio.

**i Currency risk**

The Company is mainly exposed to currency risk resulting from currency mismatches between the assets and liabilities, and foreign currency transactions. The currency risk of the Company mainly arises from loans and advances, investments, and deposits denominated in foreign currencies. The Company has set limits on positions by currency. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

As at 31 December 2007, the Company's financial assets and financial liabilities by currency are analysed as follows:

In RMB'000	31 December 2007			
	RMB	USD	Others	Total
<b>ASSETS</b>				
Cash on hand and due from the Central Bank	39,982,987	455,463	287,937	40,726,387
Precious metals	8,200	–	–	8,200
Amounts due from other financial institutions (Note 1)	36,512,797	2,894,457	1,018,017	40,425,271
Financial assets at fair value through profit or loss and derivative financial assets	1,725,970	30,696	12,775	1,769,441
Loans and advances	209,581,235	5,348,466	859,933	215,789,634
Available-for-sale financial assets	17,685,815	139,426	–	17,825,241
Held-to-maturity investments	15,261,646	542,929	22,423	15,826,998
Receivables - bond investments	13,450,000	–	–	13,450,000
Property and equipment	1,710,094	–	–	1,710,094
Other assets	4,759,988	116,023	33,540	4,909,551
<b>Total assets</b>	<b>340,678,732</b>	<b>9,527,460</b>	<b>2,234,625</b>	<b>352,440,817</b>
<b>LIABILITIES</b>				
Amounts due to other financial institutions (Note 2)	49,269,603	2,114,598	112,440	51,496,641
Financial liabilities at fair value through profit or loss and derivative financial liabilities	1,332,219	153,975	15,636	1,501,830
Customer deposits	270,811,155	7,764,505	2,701,321	281,276,981
Other liabilities	5,027,951	97,309	34,042	5,159,302
<b>Total liabilities</b>	<b>326,440,928</b>	<b>10,130,387</b>	<b>2,863,439</b>	<b>339,434,754</b>
<b>Net position</b>	<b>14,237,804</b>	<b>(602,927)</b>	<b>(628,814)</b>	<b>13,006,063</b>
<b>Off-balance sheet credit commitment</b>	<b>132,199,399</b>	<b>3,201,181</b>	<b>374,629</b>	<b>135,775,209</b>

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

### 37 Risk disclosure (Continued)

#### Market risk (Continued)

##### i Currency risk (Continued)

As at 31 December 2006, the Company's financial assets and financial liabilities by currency are analysed as follows:

In RMB'000	31 December 2006			
	RMB	USD	Others	Total
<b>ASSETS</b>				
Cash on hand and due from the Central Bank	25,791,774	322,315	174,087	26,288,176
Amounts due from other financial institutions (Note 1)	13,445,030	3,061,641	1,215,276	17,721,947
Financial assets at fair value through profit or loss and derivative financial assets	21,514	424,463	4,144	450,121
Loans and advances	171,578,621	2,803,962	862,223	175,244,806
Available-for-sale financial assets	18,047,257	24,292	146,420	18,217,969
Held-to-maturity investments	16,276,301	1,001,248	153,055	17,430,604
Property and equipment	1,693,940	-	-	1,693,940
Other assets	3,258,702	160,196	31,563	3,450,461
<b>Total assets</b>	<b>250,113,139</b>	<b>7,798,117</b>	<b>2,586,768</b>	<b>260,498,024</b>
<b>LIABILITIES</b>				
Amounts due to other financial institutions (Note 2)	16,479,647	1,256,692	73,915	17,810,254
Financial liabilities at fair value through profit or loss and derivative financial liabilities	7,807	500,676	3,383	511,866
Customer deposits	223,667,420	6,184,536	2,354,372	232,206,328
Other liabilities	3,282,039	64,930	25,567	3,372,536
<b>Total liabilities</b>	<b>243,436,913</b>	<b>8,006,834</b>	<b>2,457,237</b>	<b>253,900,984</b>
<b>Net position</b>	<b>6,676,226</b>	<b>(208,717)</b>	<b>129,531</b>	<b>6,597,040</b>
<b>Off-balance sheet credit commitment</b>	<b>108,282,786</b>	<b>2,646,604</b>	<b>279,421</b>	<b>111,208,811</b>

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

The table below indicates the currencies to which the Company had significant exposure on its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the exchange rate against the RMB, with all other variables held constant on the income statement. A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

CURRENCY	31 December 2007	
	Change in exchange rate in %	Effect on profit before tax
US\$	+/-8%	-/+50,101
Others	+/-8%	-/+50,305

CURRENCY	31 December 2006	
	Change in exchange rate in %	Effect on profit before tax
US\$	+/-8%	-/+18,641
Others	+/-8%	+/-10,362



## Notes to the Financial Statements

**37 Risk disclosure** (Continued)**Market risk** (Continued)**ii Interest rate risk**

The Company's interest rate risk mainly arises from the mismatch of contractual maturity or re-pricing dates between interest-earning assets and interest-bearing liabilities. The interest-earning assets and interest-bearing liabilities of the Company are mainly denominated in RMB. The PBOC sets a cap and a floor on interest rates on deposits and loans, respectively.

The Company manages its interest rate risk by adjusting the composition of assets and liabilities, monitoring indicators such as the interest rate sensitivity gap on a regular basis and measuring risk exposure in accordance with the re-pricing characteristics of assets and liabilities. The Asset and Liability Management Committee meets regularly to discuss future movement in interest rates, and manages interest rate risk exposures by adjusting the composition of the assets and liabilities.

As at 31 December 2007, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's financial assets and financial liabilities are analysed as follows:

In RMB'000	31 December 2007					Total
	Within 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest bearing	
<b>ASSETS</b>						
Cash on hand and due from the Central Bank	39,308,438	–	–	–	1,417,949	40,726,387
Precious metals	–	–	–	–	8,200	8,200
Amounts due from other financial institutions (Note 1)	36,982,611	2,952,660	490,000	–	–	40,425,271
Financial assets at fair value through profit or loss and derivative financial assets	857,867	569,758	–	50,000	291,816	1,769,441
Loans and advances	98,970,728	109,648,399	6,340,160	830,347	–	215,789,634
Available-for-sale financial assets	7,063,115	4,738,453	4,998,178	841,206	184,289	17,825,241
Held-to-maturity investments	600,387	4,659,390	6,279,872	4,287,349	–	15,826,998
Receivables – bond investments	–	–	13,450,000	–	–	13,450,000
Property and equipment	–	–	–	–	1,710,094	1,710,094
Other assets	–	–	–	–	4,909,551	4,909,551
<b>Total assets</b>	<b>183,783,146</b>	<b>122,568,660</b>	<b>31,558,210</b>	<b>6,008,902</b>	<b>8,521,899</b>	<b>352,440,817</b>
<b>LIABILITIES</b>						
Amounts due to other financial institutions (Note 2)	49,806,438	1,690,203	–	–	–	51,496,641
Financial liabilities at fair value through profit or loss and derivative financial liabilities	690,015	550,390	6,252	–	255,173	1,501,830
Customer deposits	197,468,485	65,092,412	17,481,005	315	1,234,764	281,276,981
Other liabilities	–	–	–	–	5,159,302	5,159,302
<b>Total liabilities</b>	<b>247,964,938</b>	<b>67,333,005</b>	<b>17,487,257</b>	<b>315</b>	<b>6,649,239</b>	<b>339,434,754</b>
<b>Interest rate risk exposure</b>	<b>(64,181,792)</b>	<b>55,235,655</b>	<b>14,070,953</b>	<b>6,008,587</b>	<b>Not applicable</b>	<b>Not applicable</b>

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

### 37 Risk disclosure (Continued)

#### Market risk (Continued)

##### ii Interest rate risk (Continued)

As at 31 December 2006, the contractual re-pricing dates or maturity dates, whichever were earlier, of the Company's financial assets and financial liabilities are analysed as follows:

In RMB'000	31 December 2006					
	Within 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Non-interest-bearing	Total
<b>ASSETS</b>						
Cash on hand and due from the Central Bank	25,169,064	–	–	–	1,119,112	26,288,176
Amounts due from other financial institutions (Note 1)	15,381,431	1,940,516	400,000	–	–	17,721,947
Financial assets at fair value through profit or loss and derivative financial assets	136,677	290,681	–	–	22,763	450,121
Loans and advances	72,089,242	91,379,288	9,489,719	2,286,557	–	175,244,806
Available-for-sale financial assets	4,178,003	9,984,815	2,102,070	1,705,665	247,416	18,217,969
Held-to-maturity investments	241,042	4,773,342	6,405,933	6,010,287	–	17,430,604
Property and equipment	–	–	–	–	1,693,940	1,693,940
Other assets	–	–	–	–	3,450,461	3,450,461
<b>Total assets</b>	<b>117,195,459</b>	<b>108,368,642</b>	<b>18,397,722</b>	<b>10,002,509</b>	<b>6,533,692</b>	<b>260,498,024</b>
<b>LIABILITIES</b>						
Amounts due to other financial institutions (Note 2)	16,081,906	1,728,348	–	–	–	17,810,254
Financial liabilities at fair value through profit or loss and derivative financial liabilities	188,586	295,165	–	–	28,115	511,866
Customer deposits	163,533,251	53,488,126	14,103,326	2,254	1,079,371	232,206,328
Other liabilities	–	–	–	–	3,372,536	3,372,536
<b>Total liabilities</b>	<b>179,803,743</b>	<b>55,511,639</b>	<b>14,103,326</b>	<b>2,254</b>	<b>4,480,022</b>	<b>253,900,984</b>
<b>Interest rate risk exposure</b>	<b>(62,608,284)</b>	<b>52,857,003</b>	<b>4,294,396</b>	<b>10,000,255</b>	<b>Not applicable</b>	<b>Not applicable</b>

Notes: 1. Amounts due from other financial institutions included financial assets of placement of deposits with other financial institutions, funds loaned to other financial institutions and reverse repurchase agreements.

2. Amounts due to other financial institutions included financial liabilities of placement of deposits from other financial institutions, funds borrowed from other financial institutions and repurchase agreements.

The Company principally uses sensitivity analysis to measure and control interest rate risk. In respect of the financial assets and liabilities at fair value through profit or loss, in the opinion of management, the interest rate risk to the Company arising from this portfolio is not significant. For other financial assets and liabilities, the Company mainly uses gap analysis to measure and control the related interest rate risk.

As at 31 December 2007 and 31 December 2006, the gap analyses of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) are as follows:

In RMB'000	31 December 2007		31 December 2006	
	Changes in interest rate (basis point)		Changes in interest rate (basis point)	
	-100	+100	-100	+100
Effect on the net interest income – increase/(decrease)	355,998	(355,998)	349,137	(349,137)
Effect on equity – increase/(decrease)	90,170	(90,170)	140,749	(140,749)

The above gap analyses assume that the interest rate risk profile of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) remains static.

### 37 Risk disclosure *(Continued)*

#### Market risk *(Continued)*

##### ii Interest rate risk *(Continued)*

The sensitivity of the net interest income is the effect of a reasonable possible change in interest rates on the net interest income for one year, in respect of the financial assets and liabilities (excluding financial assets and liabilities at fair value through profit or loss) held at the balance sheet date. The sensitivity of equity is calculated by revaluing the year end portfolio of fixed-rate available-for-sale financial assets, based on a reasonable possible change in interest rates.

The above sensitivity analyses are based on the following assumptions: (i) all assets and liabilities that are re-priced/due within three months (inclusive), and between three months and one year (inclusive) are assumed to be re-priced in the mid of the respective bands; and (ii) there are parallel shifts in the yield curve.

Regarding to the above assumptions, the effect on the net interest income and equity as a result of the actual increases or decreases in interest rates may differ from that of the above sensitivity analyses.

#### Fair values

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties at an arm's length transaction. Subject to the existence of an active market (e.g., authorised securities exchange), the market value is the best reflection of the fair value of financial instrument. As there is no available market value for part of the financial assets and liabilities held and issued by the Company, the present value or other valuation methods described below are used to determine the fair values of these assets and liabilities. However, the value determined by this method is subject to the impact of future cash flows, time assumptions and discount rates used.

The following methods and assumptions have been used in estimating fair value:

- i Financial assets/financial liabilities at fair value through profit or loss (including financial assets held for trading and financial liabilities held for trading and derivative financial assets/derivative financial liabilities) are measured at fair value by reference to the quoted market prices when available. If quoted market prices are not available, then fair values are estimated on the basis of discounted cash flows or by reference to the quotes provided by counterparty. The carrying amounts of these items are equal to their fair values.
- ii The fair values of the held-to-maturity investments and the receivables – bond investments are determined with reference to the available market value. If quoted market prices are not available, then fair values are estimated on the basis of discounted cash flows.
- iii The fair values of other financial assets and financial liabilities maturing within 12 months are assumed to be approximately equal to their carrying amounts due to their short maturity.
- iv The fair values of the fixed rate loans are estimated by comparing the market interest rates when the loans are granted with the current market rates offered on similar loans. Changes in credit quality of loans within the portfolio are not taken into account in determining gross fair values as the impact of credit risk is recognised separately by deducting the amount of the impairment provision from both the carrying amount and the fair value.
- v Interest rate on customer deposits might either be floating or fixed depending on the types of products. The fair values of the saving accounts and deposits without maturity date are the amounts payable on demand to customers. The fair values of the deposits with fixed terms are determined by the discounted cash flow method. The discount rate adopted is the current interest rate on deposits with the same maturity as the remaining maturity of those deposits.

All of these assumptions and methods provide a consistent basis for calculating the fair values of the Company's assets and liabilities. However, other institutions may use different assumptions and methods for calculation, and therefore the fair values disclosed by different financial institutions may not be entirely comparable.

In the opinion of the management, there are no material differences between the fair values and the related carrying amounts of the loans and advances, receivables-bond investments and customer deposits at year end.

### 38 Capital Management

The primary objectives of the Company's capital management are to ensure that the Company complies with regulatory capital requirements, to maximize shareholders value and to support the continuous growth in business. The Company regularly reviews its capital structure and makes adjustments to it through asset and liability management, so as to maintain the overall balance of the capital structure and maximization of capital return.

During the year of 2007, the Company has increased the core capital by RMB 3.9 billion Yuan by issuance and exercise of warrants. As at 31 December 2007, both the Company's core capital adequacy ratio and capital adequacy ratio achieved 5.8%, where the former exceeded the regulatory requirement of 4%.

The second batch of warrants of the Company will be due to be exercised in the mid of 2008. If these warrants were fully exercised, the core capital would increase by RMB 1.9 billion Yuan. Furthermore, certain projects for enhancing the core capital and supplementary capital have been approved by shareholders in an extraordinary general meeting. In connection with this, it is expected that the core capital and supplementary capital will increase by RMB 4.2 billion Yuan and no more than RMB 8 billion Yuan, respectively.

During the year of 2007, the Company calculated and reported the core capital adequacy ratio and capital adequacy ratio in accordance with the Regulation Methods on Commercial Banks' Capital Adequacy Ratio promulgated by the CBRC and the CBRC's notice relating to questions of computation of the capital adequacy ratio after the implementation of ASBEs.

The core capital includes share capital, capital reserve, surplus reserve, general reserve and unappropriated profit. The supplementary capital includes revaluation surplus.

<i>In RMB'000</i>	31 December 2007	31 December 2006
Net core capital	12,692,620	6,379,384
Supplementary capital	112,317	45,169
Net capital	12,691,876	6,419,812
Risk weighted assets and market risk capital adjustment	220,056,277	173,222,058
Core capital adequacy ratio	5.8%	3.7%
Capital adequacy ratio	5.8%	3.7%

### 39 Related Party Relationships and Transactions

Details of the Company's major shareholder are as follows:

NAME	Place of registration	Percentage of equity interest held	
		31 December 2007	31 December 2006
Newbridge Asia AIV III, L.P.	Delaware, USA	16.70%	17.89%

Newbridge Asia AIV III, L.P. is an investment fund whose register form is a limited partnership and its registered capital is US\$724 million. It focuses on strategic investment. It was established on 22 June 2000 and its initial existing period was 10 years. The ultimate controlling parties of Newbridge Asia AIV III, L.P. are Mr David Bonderman, Mr James G. Coulter, Mr William S. Price III and Mr Richard C. Blum.

Details of the Company's original subsidiary, which is in the process of being sold, are as follows:

NAME	Place of registration	Registered Capital (RMB Yuan)	Percentage of equity interest held by the Company		Principal activity
Shenzhen Yuan Sheng Industrial Co., Ltd.	Shenzhen, the PRC	21,010,000	100%		Real estate

As at 31 December 2007, the current balance of the accounts receivable from Shenzhen Yuan Sheng Industrial Co., Ltd. was RMB 1,059 thousand Yuan (31 December 2006: RMB 10,989 thousand Yuan).

## Notes to the Financial Statements

**39 Related Party Relationships and Transactions** (Continued)

The related party transactions between the Company and the key management personnel during the year are listed below:

**LOANS AND ADVANCES**

<i>In RMB'000</i>	<b>2007</b>	2006
Balance at beginning of the year	–	2,713
Increase during the year	<b>800</b>	–
Decrease during the year	<b>(88)</b>	(2,713)
<b>Balance at end of the year</b>	<b>712</b>	–
<b>Interest income on loans</b>	<b>20</b>	24

**DEPOSITS**

<i>In RMB'000</i>	<b>2007</b>	2006
Balance at beginning of the year	<b>10,786</b>	9,492
Increase during the year	<b>89,627</b>	50,262
Decrease during the year	<b>(81,797)</b>	(48,968)
<b>Balance at end of the year</b>	<b>18,616</b>	10,786
<b>Interest expenses on deposits</b>	<b>29</b>	137

These deposit and loan transactions are under normal business terms and conditions and were being processed under normal procedures.

As at 31 December 2007, the Company has authorised a total credit facility of RMB 2.772 billion Yuan (31 December 2006: RMB 2.415 billion Yuan) for entities relating to the key management personnel of the Company and their close family members, which included an outstanding loan balance amounted to RMB 1.19 billion Yuan (31 December 2006: RMB 1.209 billion Yuan) and an outstanding facility of the off-balance sheet items amounted to RMB 0.39 billion Yuan (31 December 2006: RMB 0.118 billion Yuan).

Details of the compensation for key management personnel are as follows:

<i>In RMB'000</i>	<b>2007</b>	2006
Salaries and other short term employee benefits	<b>70,156</b>	46,121
Post-employment benefits	<b>556</b>	82
Other long term employee benefits	–	–
Termination benefits	–	–
Share-based payment benefits	<b>6,278</b>	1,472
<b>Total</b>	<b>76,990</b>	47,675

**40 Retirement Benefits**

As stipulated by the PRC Government regulations, the Company is required to make contributions to the state retirement plan at rates ranging from 9% to 23% (2006: 10% to 23%) of the salaries of its staff.

**41 Post Balance Sheet Events**

As at 13 March 2008, the Company has received approval from the CBRC and PBOC to issue up to RMB 7 billion Yuan in subordinate bonds on the interbank market.

**42 Comparative Figures**

Certain comparative figures have been restated to conform with the current year's presentation.

**43 Approval of the Financial Statements**

The financial statements have been authorised for issuance by the board of directors on 19 March 2008.

## Glossary

<b>IFRS financial statements</b>	Financial statements prepared under International Financial Reporting Standards. These are the Bank's supplementary financial statements and are used for reference purposes.
<b>PRC GAAP financial statements</b>	A general term for financial statements prepared under PRC Accounting Standards for business enterprises. PRC GAAP financial statements represent the statutory financial statements of the Bank
<b>Total lending</b>	Unless otherwise stated, total lending represents total loans plus discounted bills and trade finance exposures.
<b>CSRC</b>	The China Securities Regulatory Commission
<b>CBRC</b>	The China Banking Regulatory Commission
<b>Domestic CPA</b>	Refers to Ernst & Young Hua Ming, the CPA firm responsible for auditing our statutory financial statements.
<b>Overseas CPA</b>	Refers to Ernst & Young, the CPA firm responsible for auditing our IFRS financial statements.
<b>NPL</b>	Non-performing loan. A non-performing loans is any loan classified as substandard grade, doubtful or loss.
<b>Capital Adequacy Ratio (CAR)</b>	$\text{Net capital} / \text{Total risk-weighted assets}$
<b>Core Capital Adequacy Ratio (CCAR)</b>	$\text{Core capital} / \text{Total risk-weighted assets}$ . Core capital is defined as total capital less supplementary capital arising from sub-ordinated debt and any provision surplus.
<b>Reposessed assets</b>	Reposessed assets are assets such as properties, vehicles and equipment which are recovered from borrowers whose loans are deemed to be non-performing loans, and who have failed to settle an obligation in cash upon the maturity of the loan, thereby prompting the Bank to foreclose.
<b>MOF</b>	The Ministry of Finance, PRC
<b>CPC</b>	Communist Party of China

## Company Information

### Legal name

深圳发展银行股份有限公司  
(SDB or the Bank)  
Shenzhen Development Bank Co., Ltd.

### Legal Representative

Mr Frank N. Newman

### Secretary of the Board of Directors

Mr Xu Jin

### Representative of Securities Affairs

Mr Lv Xuguang

Address: SDB Tower, 5047 Shennan Road East, Shenzhen City,  
Guangdong Province, China  
Board Office, Shenzhen Development Bank  
Tel.: +86 (755) 8208 0387  
Fax: +86 (755) 8208 0386  
Email address: dsh@sdb.com.cn

### Registered address

Shenzhen Development Bank Tower,  
No. 5047 Shennan Road East,  
Shenzhen, Guangdong Province, China  
Postal code: 518001  
Website: www.sdb.com.cn  
Email address: dsh@sdb.com.cn

### Periodicals selected by the Bank for information disclosure

China Securities Journal and Securities Times  
Annual Report Posting Website designated by  
China Securities Regulatory Commission:  
www.cninfo.com.cn  
Place for keeping annual reports of the Bank:  
Secretariat of the Board of Directors of the Bank

### Stock exchange on which the shares of the Bank are listed

#### Shenzhen Stock Exchange

Abbreviated name of share: SDB A  
Stock code: 000001

### Additional related information of the Bank

Date of initial registration: 22 December 1987  
Date of change of registration: 29 December 2007

Business Registration No: 440301103098545

Tax registration Numbers:  
National tax: 440300192185379;  
local tax: 440300192185379

Domestic accounting firm appointed by the Bank:  
Ernst & Young Hua Ming Accounting Firm

16/F, E&Y Tower, 1 Chang'an Street,  
Dongcheng District, Beijing

Overseas accounting firm appointed by the Bank:  
Ernst & Young Accounting Firm  
18/F, Two IFC, 8 Finance St., Central, Hong Kong

This Report is prepared both in Chinese and English. In the event of any dispute over the two versions, the Chinese version shall prevail.

### Important Notes

The Bank's board of directors along with its directors, the board of supervisors along with its supervisors, and senior management team guarantee that this Report does not have any false documentation, misleading statements or material omission. They are fully responsible for the authenticity, accuracy and completeness of the Report both on a collective and individual basis.

The 3rd meeting of the seventh board of directors of the Bank discussed the full text and abstract of the 2007 Annual Report. There were 10 directors present at the meeting. The board of the Bank approved the Report unanimously at the meeting. Director (Independent Director) Ms Mary Ma, Mr Ricky Lau and Mr Andy Xie did not attend the meeting upon regulatory requirements because their post qualifications are under examination of the CBRC.

The Ernst & Young Hua Ming Accounting Firm and Ernst & Young Accounting Firm have audited the annual financial statements of the Bank in compliance with the national and international audit standards separately, and have produced standard unqualified auditing report.

Mr Frank N. Newman, the Bank's Chairman (CEO), Mr Xiao Suining, President, Mr Wang Bomin, Chief Financial Officer and Ms Wang Lan, Head of the Accounting Department, guarantee the authenticity and completeness of the financial report in the Annual Report



## Written Confirmation of Directors and Senior Management on Annual Report 2007

In accordance with Securities Law and No. 2 Regulation on Contents and Format of Information Disclosure on Publicly Listed Companies – Contents and Format of Annual Report (Revised in 2007), we, as directors and senior executives of Shenzhen Development Bank Co., Ltd., provide the following opinions after studying and checking Annual Report 2007 of Bank and its “Abstract”:

1. The Bank operates in strict accordance with Accounting Standards for Enterprises, Accounting System for Enterprises and Accounting System for Financial Enterprises, and the Bank’s 2007 Annual Report and its abstract give a fair view of the financial position and operating results of the Bank.
2. Ernst & Young Huaming Accounting firm and Ernst & Young Accounting firm have audited the annual financial statement of the Bank in compliance with the national and international audit standards, and have issued standard unqualified audit reports.
3. We undertake that the information disclosed in Bank’s 2007 Annual Report and its abstract is true, accurate and complete and that this Annual Report contains no false record, misrepresentation or material omissions, and we are severally and jointly liable for the truthfulness, accuracy and completeness thereof.

## Reference Documents

1. Financial statements bearing the signatures and stamps of the chairman of BoD, the President, the chief executive officer and the officer-in-charge of the accounting institution.
2. Original copies of the audit reports bearing the chop of the accounting firm and signatures of CPAs.
3. Original copies of all documents and notices disclosed on the China Securities and Securities Times by the Bank during the report period.

Board of Directors of Shenzhen Development Bank Co., Ltd.  
20 March 2008

### Presentation format and contents of this annual report and the statutory annual report

This annual report is produced based on the contents of the statutory annual report plus additional information about the Bank’s businesses. This annual report presentation format is re-arranged with an aim to provide greater transparency and to provide investors and users of this report more comprehensive information to understand the business and management of the Bank.

If investors wish to have a copy of the statutory annual report announced on 25 March 2007, please download from the CSRC authorized website: <http://www.cninfo.com.cn>, or contact the board secretariat office of the Bank.

### Forward-looking statements

This annual report includes forward-looking statements. All statements, other than statements of historical fact, that address activities, events or developments that the Bank anticipates may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. (The Bank’s actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties). The Bank makes the forward-looking statements referred to herein as at 15th May 2007 and undertakes no obligation to update these statements.



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Stock code: 000001